

**ABYAAR REAL ESTATE DEVELOPMENT COMPANY
K.S.C.P. AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABYAAR REAL ESTATE DEVELOPMENT COMPANY K.S.C.P.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Abyaar Real Estate Development Company K.S.C.P. (the parent company) and its subsidiary (together the “group”), which comprise the consolidated statement of financial position as at 31 December 2013 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for 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 the parent company's management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

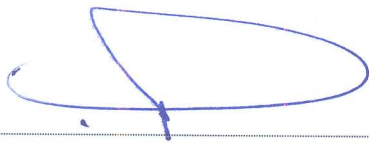
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
ABYAAR REAL ESTATE DEVELOPMENT COMPANY K.S.C. P. (continued)**

Opinion

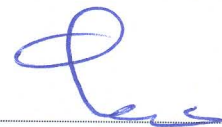
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Matters

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements together with the contents of the report of the Parent Company's Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012, as amended and by the parent company's Articles of Association, as amended, and Memorandum of Incorporation 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 parent company's Articles of Association, as amended, and Memorandum of Incorporation have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the parent company or on its financial position.



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



ALI A. AL-HASAWI
LICENSE NO.30-A
RÖDL MIDDLE EAST
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ACCOUNTANTS

16 February 2014
Kuwait

Abyaar Real Estate Development Company K.S.C.P. and Subsidiary

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2013

| | <i>Notes</i> | 2013 KD | 2012 KD |
|---|--------------|---------------------------|---------------------|
| INCOME | | | |
| Rental income | | - | 54,108 |
| Net gain on settlement of liabilities | 6, 17,18 | 93,950 | 3,206,095 |
| Unrealized loss on revaluation of investment properties | 6 | (2,253,505) | (1,800,000) |
| Gain on foreign exchange | | 95,589 | 542,880 |
| Ijara income | | 530,000 | - |
| Other income | | 196,758 | 868,571 |
| Share of results of associates | 8 | 1,426,155 | (4,596,662) |
| | | <u>88,947</u> | <u>(1,725,008)</u> |
| EXPENSES | | | |
| Staff costs | | (651,048) | (441,862) |
| General and administration expenses | | (691,987) | (583,862) |
| Islamic finance costs | | (3,646,431) | (3,015,842) |
| | | <u>(4,989,466)</u> | <u>(4,041,566)</u> |
| OPERATING LOSS BEFORE IMPAIRMENT LOSSES | | | |
| Impairment loss on available for sale investment | 9 | (53,661) | (380,692) |
| Impairment loss on investment in joint ventures | 7 | - | (5,691,140) |
| | | <u>(4,954,180)</u> | <u>(11,838,406)</u> |
| LOSS FOR THE YEAR | | | |
| BASIC AND DILUTED LOSS PER SHARE | | | |
| | 4 | <u>(4.5) fils</u> | <u>(10.87) fils</u> |

The attached notes 1 to 22 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C.P. and Subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

| | <i>2013</i> <i>KD</i> | <i>2012</i> <i>KD</i> |
|---|---------------------------|----------------------------|
| Loss for the year | <u>(4,954,180)</u> | <u>(11,838,406)</u> |
| <i>Other comprehensive loss reclassifiable to statement of income in subsequent periods</i> | | |
| Foreign currency translation differences | <u>299,339</u> | <u>900,244</u> |
| Other comprehensive income for the year | <u>299,339</u> | <u>900,244</u> |
| Total comprehensive loss for the year | <u><u>(4,654,841)</u></u> | <u><u>(10,938,162)</u></u> |

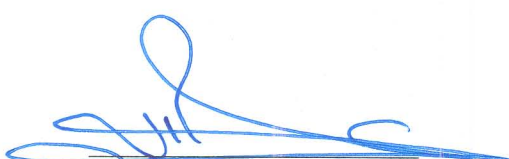
The attached notes 1 to 22 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C.P. and Subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

| | <i>Notes</i> | <i>2013</i> <i>KD</i> | <i>2012</i> <i>KD</i> |
|--------------------------------------|--------------|--------------------------|--------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property and equipment | | 620,317 | 737,834 |
| Properties under development | 5 | 40,528,133 | 40,391,599 |
| Investment properties | 6 | 81,448,975 | 105,935,066 |
| Investment in joint ventures | 7 | 4,338,627 | 4,279,860 |
| Investment in associates | 8 | 7,798,100 | 8,594,583 |
| Available for sale investments | 9 | 3,577,689 | 3,631,598 |
| Ijarah receivable | 10 | 25,926,122 | - |
| | | <u>164,237,963</u> | <u>163,570,540</u> |
| Current assets | | | |
| Accounts receivable and prepayments | 11 | 25,533,160 | 27,736,935 |
| Murabaha investment | | 995,084 | 466,000 |
| Bank balances and cash | 12 | 2,280,901 | 1,829,281 |
| | | <u>28,809,145</u> | <u>30,032,216</u> |
| TOTAL ASSETS | | <u>193,047,108</u> | <u>193,602,756</u> |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 13 | 110,727,500 | 110,727,500 |
| Statutory reserve | 14 | 1,473,038 | 1,473,038 |
| General reserve | 14 | 2,288 | 2,288 |
| Treasury shares | 15 | (1,473,038) | (1,473,038) |
| Foreign currency translation reserve | | 1,349,393 | 1,050,054 |
| Accumulated losses | | (22,135,354) | (17,181,174) |
| Total equity | | <u>89,943,827</u> | <u>94,598,668</u> |
| Non-current liabilities | | | |
| Islamic financing payables | 16 | 24,359,838 | 26,002,878 |
| Accounts payable and accruals | 17 | 14,676,091 | 9,201,066 |
| Employees' end of service benefits | | 280,447 | 149,095 |
| | | <u>39,316,376</u> | <u>35,353,039</u> |
| Current liabilities | | | |
| Islamic financing payables | 16 | 36,596,180 | 34,065,774 |
| Accounts payable and accruals | 17 | 27,190,725 | 29,585,275 |
| | | <u>63,786,905</u> | <u>63,651,049</u> |
| Total liabilities | | <u>103,103,281</u> | <u>99,004,088</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>193,047,108</u> | <u>193,602,756</u> |


Marzooq R. Al-Rashdan
Chairman

The attached notes 1 to 22 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C.P. and Subsidiary

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2013

| | Notes | 2013 KD | 2012 KD |
|---|----------|-----------------------|-------------------------|
| OPERATING ACTIVITIES | | | |
| Loss for the year | | (4,954,180) | (11,838,406) |
| Adjustment for: | | | |
| Depreciation | | 121,918 | 161,950 |
| Islamic finance costs | | 3,646,431 | 3,015,842 |
| Provision for employees end of service benefits | | 131,352 | 8,360 |
| Impairment loss on available for sale investment | | 53,661 | 380,692 |
| Net gain on settlement of liabilities | 6, 17,18 | (93,950) | (3,206,095) |
| Unrealized loss on revaluation of investment properties | 6 | 2,253,505 | 1,800,000 |
| Impairment loss on investment in joint ventures | 7 | - | 5,691,140 |
| Share of results of associates | 8 | (1,426,155) | 4,596,662 |
| Ijara income | 10 | (530,000) | - |
| Gain on foreign exchange | | (95,589) | (542,880) |
| | | <u>(893,007)</u> | <u>67,265</u> |
| Changes in working capital: | | | |
| Accounts receivable and prepayments | | 2,203,775 | 454,454 |
| Accounts payable and accruals | | 7,519,873 | (4,345,059) |
| Cash from (used) in operations | | <u>8,830,641</u> | <u>(3,823,340)</u> |
| Employees' end of service benefits paid | | - | (1,518) |
| Net cash from (used in) operating activities | | <u>8,830,641</u> | <u>(3,824,858)</u> |
| INVESTING ACTIVITIES | | | |
| Additions to property and equipment | | (4,401) | (34,075) |
| Additions to properties under development | | (4,534,982) | (653,587) |
| Additions to investment properties | | (1,087,294) | (324,440) |
| Additions to investment in joint ventures | 7 | (49,384) | - |
| Movement in murabaha investment | | (529,084) | 594,000 |
| Net movement in restricted bank accounts | | (1,175,999) | (36,254) |
| Net cash used in investing activities | | <u>(7,381,144)</u> | <u>(454,356)</u> |
| FINANCING ACTIVITIES | | | |
| Islamic financing payables – net | | (2,173,876) | (322,066) |
| Proceeds from increase in share capital | | - | 5,135,962 |
| Net cash (used in) from financing activities | | <u>(2,173,876)</u> | <u>4,813,896</u> |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (724,379) | 534,682 |
| Bank balance and cash at 1 January | | <u>1,012,540</u> | <u>477,858</u> |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 12 | <u><u>288,161</u></u> | <u><u>1,012,540</u></u> |

The attached notes 1 to 22 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C.P. and Subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

| | Share capital KD | Statutory reserve KD | General reserve KD | Treasury shares KD | Foreign currency translation reserve KD | Accumulated losses KD | Total KD |
|--|---------------------|-------------------------|-----------------------|-----------------------|--|--------------------------|-------------------|
| Balance at 1 January 2013 | 110,727,500 | 1,473,038 | 2,288 | (1,473,038) | 1,050,054 | (17,181,174) | 94,598,668 |
| Loss for the year | - | - | - | - | - | (4,954,180) | (4,954,180) |
| Other comprehensive income for the year | - | - | - | - | 299,339 | - | 299,339 |
| Total comprehensive income (loss) for the year | - | - | - | - | 299,339 | (4,954,180) | (4,654,841) |
| Balance at 31 December 2013 | 110,727,500 | 1,473,038 | 2,288 | (1,473,038) | 1,349,393 | (22,135,354) | 89,943,827 |
| Balance at 1 January 2012 | 105,591,538 | 1,473,038 | 2,288 | (1,473,038) | 149,810 | (5,342,768) | 100,400,868 |
| Loss for the year | - | - | - | - | - | (11,838,406) | (11,838,406) |
| Other comprehensive income for the year | - | - | - | - | 900,244 | - | 900,244 |
| Total comprehensive income (loss) for the year | - | - | - | - | 900,244 | (11,838,406) | (10,938,162) |
| Increase in share capital | 5,135,962 | - | - | - | - | - | 5,135,962 |
| Balance at 31 December 2012 | 110,727,500 | 1,473,038 | 2,288 | (1,473,038) | 1,050,054 | (17,181,174) | 94,598,668 |

The attached notes 1 to 22 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C.P. and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

1 ACTIVITIES

The consolidated financial statements of Abyaar Real Estate Development Company K.S.C.P. (the "parent company") and subsidiary (the "group") for the year ended 31 December 2013 were authorised for issue by the parent company's board of directors on 16 February 2014. The General Assembly of the parent company's shareholders has the power to amend these consolidated financial statements after issuance.

The registered office of the parent company is located at Al Sour Tower, Al Sour Street, Al Qebla Area, P.O. Box 4238, Safat 13043, Kuwait.

The group is engaged in various types of real estate development activities in accordance with the article of association and memorandum of incorporation of the Parent Company. The group's business activities are all carried out within the Middle East and Egypt. All activities are conducted in accordance with Islamic Sharee'a as approved by Sharia Board.

The New Companies Law issued on 26 November 2012 by Decree Law no. 25 of 2012 (the "Companies Law"), cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no. 97 of 2013 (the Decree). The Executive Regulations of the new amended law issued on 29 September 2013 and was published in the official Gazette on 6 October 2013. As per article three of the executive regulations, the parent company has one year from the date of publishing the executive regulations to comply with the new amended law.

2 FUNDAMENTAL ACCOUNTING CONCEPT

During the year ended 31 December 2013, the group has incurred losses of KD 4,954,180 (2012: KD 11,838,406) and as at that date has accumulated losses of KD 22,135,354 (2012: 17,181,174). Further as stated in the Note 16, at 31 December 2013, the group was unable to meet its Islamic financing payables obligations of KD 29,342,443 (2012: KD 28,387,809) and its current liabilities exceeded the current assets by approximately KD 34,977,760 (2012: KD 33,618,833) at 31 December 2013. Furthermore lenders representing 24 % of total Islamic financing payable of the group have initiated legal proceedings for the recovery of past due Islamic financing payables. The management and the shareholders of the parent company have taken a number of actions to settle the group's liabilities and obtain longer term funding; some of which are described below:

- The group has partly settled Islamic financing payable of KD 585,189 by transferring investment property to the lender (Note 16)
- The group has partly settled amounts due to related by of KD 3,128,512 (Note 18)
- During the current year group has successfully restructured debt of a lender amounting to KD 24,359,838 on a long term basis
- The group is in discussion with remaining lenders to arrange for settlement, rescheduling and providing collateral coverage for its remaining Islamic financing payables.

Based on the above, and the fact that the group's total assets exceed its liabilities by approximately KD 89,943,827 at 31 December 2013, the management considers that the group has adequate resources to continue in operational existence for the foreseeable future and accordingly the going concern basis continues to be adopted in preparing these consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investment properties and available for sale investments.

The consolidated financial statements have been presented in Kuwaiti Dinars (KD). However, the functional currency of the parent company is United Arab Emirate Dirham (UAE Dirham).

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and applicable requirements of Ministerial Order No. 18 of 1990.

Abyaar Real Estate Development Company K.S.C.P. and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent company and its subsidiary as at 31 December 2013.

Subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date when such control ceases. The financial statements of the subsidiary is prepared for the same reporting period as the parent company, using consistent accounting policies. The financial statements of subsidiary is consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interest represents the portion of profit and loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position separately from equity attributable to the equity holders of the Parent Company.

Total comprehensive income/loss within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in other comprehensive income
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss

Detail of the subsidiary company is set out below:

| Company name | Country of incorporation | Equity interest as at 31 December | | Principal activities |
|--|--------------------------|-----------------------------------|------|------------------------|
| | | 2013 | 2012 | |
| Al Ain Al Ahlia for General Trading Company W.L.L. | Kuwait | 99% | 99% | Real estate activities |

The parent company's effective interest in the subsidiary is 100%.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Revenue recognition

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. The following specific recognition criteria must also be met before revenue is recognised.

Sale of properties

Sale of properties is recognised when the risk and rewards of ownership have passed to the buyer usually evidenced by transfer of title of the properties.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms, and included in revenue due to its operating nature.

Ijara income

Ijara income is recognized on a time proportion basis so as to yield a constant periodic rate of return based on the balance outstanding.

Finance costs

Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognized as an expense in the period in which they are incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is stated at cost, less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives as follows:

| | |
|--------------------------|------------|
| • Buildings | 30 years |
| • Furniture and fixtures | 3 years |
| • Computers | 1-4 years |
| • Vehicles | 3- 5 years |

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

Properties under development

Properties under development are developed for future sale in the ordinary course of business, rather than to be held for rental or capital appreciation and are stated at lower of cost and net realizable value. Upon completion these are transferred to trading properties. Cost includes freehold rights for land, amounts paid to contractors for construction, borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs. Net realizable value is based on estimated selling price in the ordinary course of the business, based on market prices at the statement of financial position date, less costs to completion and the estimated cost of sale.

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of income in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the period of derecognition.

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 and equipment up to the date of change in use.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in joint ventures

The group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest.

The investment in a joint venture is accounted for under the equity method of accounting. Under the equity method of accounting, the initial investment is recorded at cost and the carrying amount is increased or decreased to recognize the group's share of profits or losses and other changes in equity of the joint venture. Distributions received from joint venture reduce the carrying amount of the investment.

Investment in associates

The group's investment in associates is accounted for under the equity method of accounting. These are entities over which the group exercises significant influence and which are neither subsidiaries nor joint ventures. Investment in associates is carried in the statement of financial position at cost, plus post-acquisition changes in the group's share of net assets of the associate, less any impairment in value. Distributions received from an associate reduce the carrying amount of the investment. The consolidated statement of income reflects the group's share of the results of its associates.

Unrealized profits and losses resulting from transactions between the group and its associate are eliminated to the extent of the group's interest in the associate.

Available for sale investments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. After initial recognition, investments are remeasured at fair value, unless fair values cannot be reliably measured, in which case, these investments are carried at cost less any impairment loss. Valuation gains and losses arising from remeasurement to fair value are classified as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in other comprehensive income is included in the consolidated statement of income for the year.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision 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

For the purpose of the consolidated cash flows statement, cash and cash equivalents consist of cash on hand and bank balances.

Murabaha investments

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. Murabaha investments are stated at amortised cost.

Ijara receivables

Ijara receivables arise from financing structure when the purchase and immediate lease of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. Ijara receivables are carried at the aggregate of the minimum lease payments due, less deferred income and impairment losses.

Treasury shares

Treasury shares consist of the parents company's own shares that have been issued, subsequently reacquired by the group and not yet sold or cancelled. The treasury shares are accounted for using the cost method. When treasury shares are sold, gains are credited to a separate equity account (treasury shares reserve), which is not distributable. Any realized 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 reserves. Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits

The group provides end of service benefits to its expatriate 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. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the group also makes contributions to Public Authority 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.

Islamic financing payables

Islamic financing payables represent finance obtained under murabaha and istisna'a arrangement.

Murabaha payables

Murabaha payables represent amounts payable on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated at the total amount of the payable less profit deferred. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Istisna'a payable

Istisna'a is a sale contract between a contract owner and a contractor whereby the contractor based on an order from the contract owner undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time. Istisna'a payable is carried at amortised cost.

Accounts payable and other liabilities

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

Leases

Leases where the group is lessee

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of finance charge on the remaining balance of the liability. Finance charges are charged to the consolidated statement of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognised as expense on straight line basis over the lease term.

Certain property interests held for investment purposes by the group under operating lease are classified as investment properties and accounted for as if they were in the nature of finance leases.

Leases where the group is lessor

Leases where the group transfers substantially all the risks and benefits of ownership of the asset are financial leases and structured in the form of Ijara receivables.

Leases where the group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Provisions

Provisions are recognized when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Kuwait Foundation for the Advancement of Sciences (KFAS)

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

National Labour Support Tax (NLST)

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

Zakat

The group calculates Zakat in accordance with the requirements of Law No. 46 of 2006 at 1% of profit before deductions for the year.

Recognition and derecognition of financial assets and liabilities

a) Initial recognition and measurement

The Group's financial assets include "accounts receivable, murabaha investments, available for sale investments ijara receivables and bank balances" and financial liabilities include "accounts payable and accruals, islamic financing payables and obligations under finance lease". The group determines the classification of financial assets and liabilities at initial recognition. All financial assets and liabilities are recognised initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

b) Impairment and uncollectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for equity instruments classified as available for sale, reversals of impairment losses are recognised in the consolidated statement of income to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Reversals in respect of equity instruments classified as available for sale are recognised in the statement of comprehensive income as fair value reserve.

c) Derecognition

A financial asset (in whole or in part) is derecognised either when:

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and derecognition of financial assets and liabilities (continued)

d) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the group intends to settle on a net basis.

e) 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 group 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 concerned.

Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value less costs to sell an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the consolidated statement of income. After such a reversal, the depreciation charge is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Foreign currencies

Each entity in the group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at rate of exchange ruling on the reporting date. All exchange differences are taken to the consolidated statement of income.

Non-monetary items denominated in foreign currencies measured in terms of historical cost are translated using the exchange rates as at the date of the initial transaction. Non-monetary items denominated in foreign currencies and measured at fair value are translated using the exchange rate at the date when the fair value was determined.

On consolidation, assets and liabilities of foreign entities are translated into Kuwaiti Dinars at the year end rates of exchange and the results of these entities are translated into Kuwaiti Dinars using average rates of exchange for the year. The exchange differences arising on the translation are recognised in other comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Fair value measurement of non-financial assets

Fair values of investment properties are determined by appraisers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements

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

Classification of real estate

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

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

The group classifies property as investment property if it is acquired or developed or is in the process of development to generate rental income or for capital appreciation, or for undetermined future use.

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

Classification of investments

Management decides on acquisition of an investment whether it should be classified as carried at fair value through income statement or available for sale. All investments of the group are classified as available for sale.

Impairment of 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 judgement.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date are discussed below:

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Valuation of investment properties

Valuation of investment properties are based on the valuation made by an independent valuer who holds a recognised and relevant professional qualifications and relevant experience.

Impairment of accounts receivable

The group's management reviews periodically its accounts receivables to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

Estimation of net realisable value for trading properties and properties under development

Trading properties and properties under development are stated at the lower of cost and net realisable value (NRV). NRV for completed trading properties is assessed with reference to market conditions and prices existing at the reporting date and is determined by the group having taken suitable external advice and in the light of recent market transactions.

NRV in respect of properties under development is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to complete construction and less an estimate of the time value of money to the date of completion.

3.4 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the following issued, revised and amended IASB Standards and International Financial Reporting Interpretation Committee (IFRIC) interpretations adopted by the Group during the year:

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of this standard has not resulted in any material impact on the consolidated financial statements of the Group.

IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements' and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights, to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of this standard has not resulted in any significant impact on the financial position or performance of the Group.

IFRS 12 – Disclosure of Involvement with Other Entities

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to disclose information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of the consolidated entities. The adoption of this standard does not have any material impact on the financial position or performance of the group.

IFRS 13 – Fair Value measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The adoption of this standard does not have any material impact on the financial position or performance of the group.

IAS 1 Financial Statement Presentation

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The adoption of this standard has resulted in presentation changes in consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to be applicable at the future date. The Group intends to adopt these standards when they become effective.

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. On November 19, 2013, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 that introduced a new general hedge accounting and removed the 1 January 2015, mandatory effective date from IFRS 9. The group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendment)

These amendments are effective for annual periods beginning on or after 1 January 2014. The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

Recoverable Amount Disclosures for Non-Financial Assets (Amendment)

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. Additional disclosures will be made by the Group when amendment becomes effective.

4 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss for the year by the weighted average number of shares outstanding during the year.

| | <i>2013</i> | <i>2012</i> |
|---|----------------------|----------------------|
| | <i>KD</i> | <i>KD</i> |
| Loss for the year | <u>(4,954,180)</u> | <u>(11,838,406)</u> |
| | <i>Shares</i> | <i>Shares</i> |
| Weighted average number of shares outstanding during the year | <u>1,099,520,000</u> | <u>1,089,112,365</u> |
| Basic and diluted loss per share | <u>(4.5) fils</u> | <u>(10.87) fils</u> |

There are no dilutive potential ordinary shares.

Abyaar Real Estate Development Company K.S.C.P. and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

5 PROPERTIES UNDER DEVELOPMENT

| | 2013 KD | 2012 KD |
|-----------------------------------|-------------------|-------------------|
| At 1 January | 40,391,599 | 33,444,956 |
| Additions | 4,534,982 | 7,101,088 |
| Disposal | (1,927,500) | (526,929) |
| Transfer to investment properties | (2,579,982) | - |
| Foreign currency adjustment | 109,034 | 372,484 |
| At 31 December | <u>40,528,133</u> | <u>40,391,599</u> |

Properties under development represent the cost of freehold properties and subsequent development cost incurred. The properties are located in United Arab Emirates, Egypt and Saudi Arabia.

At the reporting date, properties under development with a carrying value of KD 39,366,070 (2012: KD 34,764,748) are mortgaged as collateral against islamic financing payables (Note 16).

The fair value of properties under development is more than their carrying value.

6 INVESTMENT PROPERTIES

| | 2013 KD | 2012 KD |
|--|-------------------|--------------------|
| At 1 January | 105,935,066 | 94,096,836 |
| Additions | 3,824,617 | 15,818,153 |
| Transfer from properties under development | 2,579,982 | - |
| Disposals | (29,023,241) | (3,226,506) |
| Unrealized loss on revaluation | (2,253,505) | (1,800,000) |
| Foreign currency adjustment | 386,055 | 1,046,583 |
| At 31 December | <u>81,448,975</u> | <u>105,935,066</u> |
| Comprising: | | |
| Properties under development | 78,008,317 | 100,751,401 |
| Developed properties | 3,440,658 | 5,183,665 |
| At 31 December | <u>81,448,975</u> | <u>105,935,066</u> |

Investment properties include certain plots of land located in United Arab Emirates acquired by the group under build-operate-transfer (BOT) agreements. These plots of land are held under operating leases and are classified and accounted for as investment properties. At the reporting date the carrying value of these properties is KD 3,440,658 (2012: KD 31,875,265).

Disposal of investment properties include sublease of certain plots of land amounting to KD 25,396,122 which were held under operating leases and were classified and accounted for as investment properties. The parent company has granted sublease over substantially all of its property interest to the third party in these plots of land and has derecognized these properties and recorded the sublease as ijara receivable (Note 10).

Included in investment properties are certain properties amounting to KD 18,273,456 (2012: KD 15,580,060) for which legal titles have not been transferred in the name of the group by the vendors. The vendor has confirmed in writing that the parent company is the beneficial owner of these properties.

Included in disposal of investment properties is an investment property of KD 1,397,295 which was transferred to a lender during the current year to partly settle islamic financing payable of KD 585,189 (Note 16). This resulted in a loss of KD 812,106 which is recorded under net gain on settlement of liabilities in the consolidated statement of income.

At the reporting date, investment properties with a carrying value of KD 55,166,089 (2012: KD 57,594,902) are mortgaged as collateral against islamic financing payables (Note 16).

Abyaar Real Estate Development Company K.S.C.P. and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

6 INVESTMENT PROPERTIES (continued)

The group's investment properties were revalued at 31 December 2013 based on valuations obtained from independent professionally qualified valuers. The valuation of the properties has been determined based on comparable market values for similar properties and are classified under level 2 of fair value hierarchy.

7 INVESTMENT IN JOINT VENTURES

| | 2013 KD | 2012 KD |
|-----------------------------|------------------|------------------|
| At 1 January | 4,279,860 | 9,867,000 |
| Additions | 49,384 | - |
| Impairment | - | (5,691,140) |
| Foreign currency adjustment | 9,383 | 104,000 |
| At 31 December | 4,338,627 | 4,279,860 |

The group has a 50% interest in Al Marj FZC and Elite Investment Company LLC, which are jointly controlled entities involved in real estate development. The balance represents the fair value of land acquired for contribution to these joint ventures.

8 INVESTMENT IN ASSOCIATES

| <i>Name of the company</i> | <i>Country of Incorporation</i> | <i>% equity interest</i> | | <i>Activities</i> |
|---|-------------------------------------|--------------------------|-------------|------------------------------------|
| | | 2013 | 2012 | |
| Abyaar Qatar Real Estate Development Company K.S.C. (Closed) | Kuwait | 15.68% | 21% | Real Estate Development |
| Makan United Real Estate | Kuwait | 20% | 20% | Real Estate |
| Tamec General Trading and Contracting Co. W.L.L. | Kuwait | 20% | 20% | General Trading and Contracting |
| Al Jaddaf Real Estate Co. K.S.C. (Closed) | Kuwait | 36.5% | 36.5% | Real Estate Development |
| Bayan Mo'atamada General Trading Company W.L.L. | Kuwait | - | 26.7% | Real Estate Development |

| | 2013 KD | 2012 KD |
|-----------------------------|------------------|------------------|
| At 1 January | 8,594,583 | 13,158,387 |
| Share of results | 1,426,155 | (4,596,662) |
| Disposal | (2,222,638) | - |
| Foreign currency adjustment | - | 32,858 |
| At 31 December | 7,798,100 | 8,594,583 |

During the current year, the group has transferred 26.7% ownership interest in Bayan Mo'atamada General Trading Company W.L.L. and 12,600,000 shares of Abyaar Qatar Real Estate Development Company K.S.C. (Closed) to a related party (an associate) to partly settle amounts due to related party (Note 18).

The group continues to exercise significant influence (even though the percentage of ownership is less than 20%) over, Abyaar Qatar Real Estate Development Company K.S.C. (Closed) through representation on the board of directors of and joint participation in major business transactions.

Investment in an associate amounting to KD 5,453,668 (2012: KD 3,089,772) is mortgaged as collateral against islamic financing payables (Note 16).

Abyaar Real Estate Development Company K.S.C.P. and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

8 INVESTMENT IN ASSOCIATES (continued)

The following table illustrates summarized financial information of the group's investment in associates:

| | 2013 KD | 2012 KD |
|--|------------------|--------------------|
| Share of associates' statement of financial position: | | |
| Assets | 4,878,908 | 10,277,321 |
| Liabilities | 2,919,192 | (1,682,738) |
| Net assets | <u>7,798,100</u> | <u>8,594,583</u> |
| Share of the associates' revenue and loss: | | |
| Revenue | 421,545 | - |
| Share of results | <u>1,426,155</u> | <u>(4,596,662)</u> |

The associates are not listed on any stock exchange.

Summarised financial information of material associates of the group is as follows:

| 31 December 2013 | | <i>Abyaar Qatar Real Estate Development Company K.S.C. (Closed) KD</i> | <i>Al Jaddaf Real Estate Company. K.S.C. (Closed) KD</i> |
|----------------------------|---|--|--|
| Assets | | 16,097,349 | 15,166,592 |
| Liabilities | | (450,153) | (246,759) |
| Net Assets | | <u>15,647,196</u> | <u>14,919,833</u> |
| Net operating income | | <u>1,882,774</u> | <u>-</u> |
| Results | | <u>1,794,479</u> | <u>(21,721)</u> |
| Other comprehensive income | | <u>(11,099)</u> | <u>-</u> |
| 31 December 2012 | <i>Bayan Mo'atamada General Trading Company W.L.L. KD</i> | <i>Abyaar Qatar Real Estate Development Company K.S.C. (Closed) KD</i> | <i>Al Jaddaf Real Estate Company K.S.C. (Closed) KD</i> |
| Assets | 6,216,559 | 14,853,003 | 15,073,027 |
| Liabilities | (552,816) | (134,343) | (131,472) |
| Net Assets | <u>5,663,743</u> | <u>14,718,660</u> | <u>14,941,555</u> |
| Net operating income | <u>48,143</u> | <u>(6,710)</u> | <u>59,850</u> |
| Results | <u>(669,300)</u> | <u>(1,456,843)</u> | <u>44,305</u> |

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9 AVAILABLE FOR SALE INVESTMENTS

These represent investments in unquoted equity securities and unquoted managed funds amounting to KD 3,577,689 (2012: KD 3,631,598) and are carried at cost, less impairment, if any, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments. There is no active market for these financial assets and the group intends to hold them for the long term. Management has performed a review of its unquoted equity investments to assess whether impairment has occurred in the value of these investments. Based on the latest available financial information, management has provided impairment provision amounting to KD 53,661 (2012: KD 380,692).

Available for sale investment amounting to KD 2,335,882 (2012: KD 2,329,865) is mortgaged as collateral against islamic financing payables (Note 16).

10 IJARA RECEIVABLE

| | 2013 KD | 2012 KD |
|-------------------------------|-------------------|------------|
| Gross amount | 32,990,588 | - |
| Less: deferred profit payable | (7,064,466) | - |
| | <u>25,926,122</u> | <u>-</u> |

Ijara receivable represent sublease of certain plots of land to a third party which were by held under operating leases and were classified and accounted for as investment properties by the group (Note 6).

Ijara receivable is unsecured and carry profit at average rate of 1.9% per annum.

11 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 2013 KD | 2012 KD |
|--|-------------------|-------------------|
| Prepaid expenses and commissions | 1,539,115 | 1,497,217 |
| Advance for purchase of property and equipment | 2,134,551 | 2,128,426 |
| Receivable from customers | 17,345,359 | 17,849,341 |
| Advance paid to contractor | 1,673,790 | 3,492,171 |
| Other receivables | 2,839,845 | 2,769,780 |
| | <u>25,533,160</u> | <u>27,736,935</u> |

12 BANK BALANCES AND CASH

| | 2013 KD | 2012 KD |
|--------------------------------|------------------|------------------|
| Cash | - | - |
| Bank balances | 2,280,901 | 1,829,281 |
| | <u>2,280,901</u> | <u>1,829,281</u> |
| Less: Restricted bank balances | (1,992,740) | (816,741) |
| | <u>288,161</u> | <u>1,012,540</u> |

Restricted bank balances represent amounts held in escrow accounts. The group cannot use these amounts until fulfilment of obligations related to construction and completion of certain projects.

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13 SHARE CAPITAL

The share capital of the parent company consists of:

| | 2013 KD | 2012 KD |
|--|-------------|-------------|
| Authorized ordinary shares of 100 fils each | 110,727,500 | 110,727,500 |
| Issued and fully paid ordinary shares of 100 fils each | 110,727,500 | 110,727,500 |

At 31 December 2013, issued and fully paid up capital of the parent company is 1,107,275,000 shares (2012: 1,107,275,000 shares) of 100 fils each.

14 RESERVES

a) Statutory reserve

In accordance with the Companies Law and the parent company's Articles of Association, 10% of the profit before directors fees, contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax and Zakat should be transferred to the statutory reserve. The parent company may discontinue such transfer when the reserve totals 50% of paid-up share capital. Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the payment of dividend of that amount.

b) General reserve

In accordance with the parent company's Articles of Association, 10% of the net profit for the year before directors fees, contribution to Kuwait Foundation for the Advancement of Sciences, National Labour Support Tax and Zakat should be transferred to general reserve. The parent company may resolve to discontinue such annual transfers in accordance with a resolution of the parent company's ordinary general meeting based on proposal submitted by the parent company's board of directors

As the parent company incurred losses during the current year, no such transfers have occurred.

15 TREASURY SHARES

The balance of treasury shares at the end of the year was 7,750,000 shares (representing 0.7% from the total outstanding shares) carried at cost of KD 1,473,038 (2012: KD 1,473,038) and with a market value of KD 418,500 (2012: KD 294,500).

16 ISLAMIC FINANCING PAYABLES

| | 2013 KD | 2012 KD |
|-------------------------------|-------------------|-------------------|
| Gross amount | 62,280,364 | 61,477,459 |
| Less: deferred profit payable | (1,324,346) | (1,408,807) |
| | <u>60,956,018</u> | <u>60,068,652</u> |
| Classified as | | |
| Current | 36,596,180 | 34,065,774 |
| Non-current | 24,359,838 | 26,002,878 |
| | <u>60,956,018</u> | <u>60,068,652</u> |

The effective rate of profit payable approximates 7% % (2012: 7%) per annum.

As at 31 December 2013, group has past due islamic financing payables obligations of KD 29,342,443 (2012: KD 28,387,809) and suspended the principal repayments on islamic financing payables.

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16 ISLAMIC FINANCING PAYABLES (continued)

As at 31 December 2013, certain lenders representing 24% of total islamic financing payables of the group have initiated legal proceedings against the parent company for the recovery of past due islamic financing payables. A decision was made against the parent company by the court of first instance and management has appealed against the decision of court of first instance in the court of appeal.

Islamic financing payables amounting to KD 30,044,496 (2012: KD 29,481,187) are secured by way of collaterals in the form of property and equipment amounting to KD 588,900 (2012: 642,767), properties under development amounting to KD 39,366,070 (2012: KD 34,764,748) (Note 5), investment properties amounting to KD 55,166,089 (2012: KD 57,594,902) (Note 6), investment in associates amounting to KD 5,453,668 (2012: KD 3,089,772) (Note 8), available for sale investments amounting to KD 2,335,882 (2012: KD 2,329,865) (Note 9).

During the year, the group has partly settled Islamic financing payable of KD 585,189 by transferring investment property of KD 1,397,295 to the lender. (Note 6)

17 ACCOUNTS PAYABLE AND ACCRUALS

| | <i>2013</i> | <i>2012</i> |
|--|--------------------------|--------------------------|
| | <i>KD</i> | <i>KD</i> |
| Advances from customers | 30,608,908 | 25,133,882 |
| Amounts due to related parties (Note 18) | 2,020,768 | 5,062,114 |
| Accrued expenses | 358,900 | 432,910 |
| Payable on purchase of investment properties | 1,194,261 | 1,190,768 |
| Payable to contractors and consultants | 4,912,823 | 4,164,942 |
| Other payables | 2,771,156 | 2,801,725 |
| | <u>41,866,816</u> | <u>38,786,341</u> |
| Classified as | | |
| Current | 27,190,725 | 29,585,275 |
| Non-current | 14,676,091 | 9,201,066 |
| | <u>41,866,816</u> | <u>38,786,341</u> |

During the year ended 31 December 2012, the parent company has settled the payable on purchase of trading property amounting to KD 56,242,532 by transferring a trading property with carrying value of KD 68,511,377. The difference between the carrying value of the trading property and amount payable to the vendor on settlement was recovered by transfer of two vacant plots of land located in Egypt from the vendor to the parent company with a fair value of KD 15,528,940 resulting in a gain on settlement of payable on purchase of trading property of KD 3,206,095. This gain is recorded under net gain on settlement of liabilities in the consolidated statement of income.

18 RELATED PARTY TRANSACTIONS

Related parties represent associates, major shareholders, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties.

These represent transactions with certain parties entered into by the group in the ordinary course of business. Pricing policies and terms of these transactions are approved by the parent company's management.

Balances with related parties included in the consolidated statement of financial position are as follows:

| | <i>Major shareholders</i> | <i>Associates</i> | <i>Total 2013</i> | <i>Total 2012</i> |
|--|-------------------------------|-------------------|-----------------------|-----------------------|
| | <i>KD</i> | <i>KD</i> | <i>KD</i> | <i>KD</i> |
| Amounts due to related parties (Note 17) | 283,952 | 1,736,816 | 2,020,768 | 5,062,114 |

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18 RELATED PARTY TRANSACTIONS (continued)

On 29 December 2013, the parent company entered into a settlement agreement with a related party (an associate) and has partly settled amount due to related party of KD 3,128,512 as follows:

- Write off of amounts due to related party of KD 364,900;
- Transfer of 12,600,000 shares of Abyaar Qatar Real Estate Development Company K.S.C. (Closed) to the related party for KD 854,844; and
- Transfer of 26.7% ownership interest in Bayan Mo'atamada General Trading Company W.L.L. for KD 1,908,768.

The group has recorded a gain of KD 906,056 on part settlement of amount due to related party, and which has been recorded under net gain on settlement of liabilities in the consolidated statement of income.

Further the parent company has agreed to settle the remaining amount due to associate of KD 1,736,816 as follows:

- Cash payment of KD 328,874; and
- Settlement by way of transfer of assets to related party equivalent to KD 1,068,800

These will be recorded by the management on payment of cash and transfer of assets to the related party.

Key management compensation:

| | <i>2013</i> <i>KD</i> | <i>2012</i> <i>KD</i> |
|------------------------------------|--------------------------|--------------------------|
| Short term benefits | 305,662 | 210,960 |
| Employees' end of service benefits | 196,105 | 126,497 |
| Total | <u>501,767</u> | <u>337,457</u> |

19 COMMITMENTS

At 31 December 2013 the group has commitments in respect outstanding letter of credits amounting KD 29,780 (2012: KD 47,866) respectively relating to properties under development.

At 31 December 2013 the group has commitments related to future capital expenditure amounting KD 4,028,934.

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20 SEGMENT INFORMATION

For management purpose the group is organised into three major geographical segments:

- United Arab Emirates (UAE)
- Kuwait
- Egypt and other GCC countries (excluding Kuwait and UAE)

Management monitors the operating results of its geographical units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on return on investments. The group does not have any inter-segment transactions.

| | UAE | | Kuwait | | Egypt and other GCC countries | | Total | |
|---|-------------|-------------|-------------|-------------|-------------------------------|------------|-------------|--------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | KD | KD | KD | KD | KD | KD | KD | KD |
| Segment revenue/ (loss) | 88,947 | (3,190,567) | - | - | - | 1,465,559 | 88,947 | (1,725,008) |
| Depreciation | (55,236) | (82,238) | (66,682) | (82,238) | - | - | (121,918) | (164,475) |
| Impairment loss on available for sale investment | (53,661) | (186,983) | - | (193,709) | - | - | (53,661) | (380,692) |
| Impairment loss on properties under development | - | - | - | - | - | - | - | - |
| Unrealised loss on revaluation of investment properties | (2,253,505) | (1,800,000) | - | - | - | - | (2,253,505) | (1,800,000) |
| Impairment loss on joint venture | - | (5,691,140) | - | - | - | - | - | (5,691,140) |
| Share of results of associates | 1,426,155 | (4,596,662) | - | - | - | - | 1,426,155 | (4,596,662) |
| Segment result | (3,612,166) | (8,399,166) | (1,343,035) | (6,645,335) | 1,021 | 3,206,095 | (4,954,180) | (11,838,406) |
| Segment assets | 168,445,156 | 167,231,442 | 9,020,871 | 10,791,254 | 15,581,081 | 15,580,060 | 193,047,108 | 193,602,756 |
| Segment liabilities | 52,102,172 | 38,913,622 | 51,001,109 | 60,090,466 | - | - | 103,103,281 | 99,004,088 |

21 RISK MANAGEMENT

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group achieving profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into interest rate risk and currency risk. It is also subject to operational risks.

The Board of Directors of the parent company are ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

21.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group monitors credit exposures and continually assesses the creditworthiness of counterparties.

Maximum exposure to credit risk

The group's policy is to enter into arrangements only with recognised, creditworthy counter parties. The maximum exposure with respect to credit risk arising from financial assets of the group, which comprise receivables and bank balances and cash, is equal to the carrying amount of these instruments.

Risk concentrations of the maximum exposure to credit risk

The maximum credit exposure to any client or counterparty as of 31 December 2013 was KD 25,926,122 (2012: KD 18,680,089) before taking account of collateral or other credit enhancements.

The group's receivable is primarily from clients located in United Arab Emirates.

Collateral and other credit enhancements

Receivable from customers are secured by way of title documents of the property.

Credit quality for class of financial assets that are neither past due nor impaired

Neither internal credit grading system nor external credit grades are used by the group to manage the credit quality of receivables. Receivable balances are monitored on an ongoing basis with the result that the group's exposure to bad debts is not significant.

Financial asset by class that are individually impaired

| | <i>Gross Exposure KD</i> | <i>Impairment Provision KD</i> |
|----------------------------|----------------------------------|--|
| At 31 December 2013 | | |
| Accounts receivable | <u>17,345,359</u> | <u>3,082,731</u> |
| | <i>Gross Exposure KD</i> | <i>Impairment Provision KD</i> |
| At 31 December 2012 | | |
| Accounts receivable | <u>18,680,089</u> | <u>3,061,200</u> |

21 RISK MANAGEMENT (continued)

| | <i>Currency</i> | <i>Change in currency rate in %</i> | <i>Effect on loss KD</i> |
|------------------|-----------------|---|----------------------------------|
| 31 December 2013 | KD | +1 | 401,555 |
| 31 December 2012 | KD | +1 | 556,034 |

21.4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

22 CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

The group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The group includes within net debt, finance costs bearing Murabahas and Istsna'a, trade and other payables, less cash and bank balances. Capital represents total equity of the group.

| | <i>2013 KD</i> | <i>2012 KD</i> |
|-----------------------------|--------------------|--------------------|
| Islamic financing payables | 60,956,018 | 60,068,652 |
| Other liabilities | 42,147,263 | 38,935,436 |
| Less: bank balance and cash | <u>(2,280,901)</u> | <u>(1,829,281)</u> |
| Net debt | 100,822,380 | 97,174,807 |
| Equity | 89,943,827 | 94,598,668 |
| Gearing ratio | 112% | 103% |