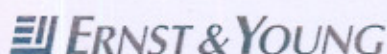


ABYAAR REAL ESTATE DEVELOPMENT COMPANY  
K.S.C. (CLOSED) AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABYAAR REAL ESTATE DEVELOPMENT COMPANY K.S.C. (CLOSED)

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Abyaar Real Estate Development Company K.S.C. (Closed) (the parent company) and its subsidiary (together the "group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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. Except for the matter described in the "Basis for Qualified Opinion" below, we conducted our audit in accordance with International Standards of 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 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, except for the matters described in the "Basis for Qualified Opinion" below, 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. (CLOSED)  
(continued)**

*Basis for Qualified Opinion*

The management of the parent company was unable to obtain the audited financial statements for all its associates for the year ended 31 December 2011. In the absence of availability of the audited financial statements of the associates as at 31 December 2011, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of investment in associates of KD 13,158,387 as at December 31, 2011 and share of results of associates of KD 303,426 for the year ended 31 December 2011. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

*Qualified Opinion*

In our opinion, except for the effect of the matter referred in the "Basis for Qualified Opinion" paragraph above, the consolidated financial statements present fairly, in all material respect, the financial position of the group as of 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

We draw attention to Note 11 to the consolidated financial statement which describes the uncertainty related to the outcome of the negotiations between the parent company and the vendor. Our opinion is not qualified in respect of this matter.



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

**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 consolidated financial statements, are in accordance therewith. We further report that except for the limitation described in the Basis for Qualified Opinion above, 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 Commercial Companies Law of 1960, as amended, and by the parent company's articles of association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the articles of association have occurred during the year ended 31 December 2011 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  
OF ERNST & YOUNG

15 February 2012  
Kuwait

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

Abyaar Real Estate Development Company K.S.C. (Closed) and Subsidiary

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2011

	Notes	2011 KD	2010 KD
<b>INCOME</b>			
Sale of trading properties		30,751,600	-
Carrying value of trading properties sold		<u>(22,751,520)</u>	<u>-</u>
Gain on sale of trading properties		8,000,080	-
Gain on sale of investment property		126,496	-
Rental income		381,923	619,787
Unrealized gain on revaluation of investment properties	7	1,120,652	6,521,879
Realized loss on sale of available for sale investments		(114,342)	-
Loss on foreign exchange		(569,802)	(1,193,288)
Other income		235,327	37,894
		<u>9,180,334</u>	<u>5,986,272</u>
<b>EXPENSES</b>			
Staff costs		(608,214)	(621,438)
General and administration expenses		(919,804)	(1,862,040)
Islamic finance costs		(3,688,112)	(2,818,584)
Advertising and marketing expenses		(810,587)	(2,671)
		<u>(6,026,717)</u>	<u>(5,304,733)</u>
<b>OPERATING PROFIT</b>		3,153,617	681,539
<b>Impairment loss:</b>			
Properties under development	6	(932,483)	(3,391,949)
Property and equipment	5	-	(748,517)
Trading properties	11	(750,000)	-
Provision/ write off of accounts receivable	12	(189,392)	(1,537,986)
<b>TOTAL IMPAIRMENT LOSS</b>		<u>(1,871,875)</u>	<u>(5,678,452)</u>
Share of results of joint ventures	8	(712,595)	-
Share of results of associates	9	(303,426)	-
<b>PROFIT (LOSS) BEFORE ZAKAT AND NATIONAL LABOR SUPPORT TAX (NLST)</b>		265,721	(4,996,913)
Zakat		(2,563)	-
NLST		(6,407)	-
<b>PROFIT (LOSS) FOR THE YEAR</b>		<u>256,751</u>	<u>(4,996,913)</u>
<b>BASIC AND DILUTED PROFIT (LOSS) PER SHARE</b>	4	<u>0.25 fils</u>	<u>(4.77) fils</u>

The attached notes 1 to 26 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C. (Closed) and Subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Profit (loss) for the year	<u>256,751</u>	<u>(4,996,913)</u>
Foreign currency translation differences	<u>(1,007,074)</u>	<u>(2,134,150)</u>
Other comprehensive loss for the year	<u>(1,007,074)</u>	<u>(2,134,150)</u>
Total comprehensive loss for the year	<u>(750,323)</u>	<u>(7,131,063)</u>


The attached notes 1 to 26 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C. (Closed) and Subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	<i>Notes</i>	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	841,503	1,056,696
Properties under development	6	33,444,956	34,363,820
Investment properties	7	94,096,836	93,437,773
Investment in joint ventures	8	9,867,000	10,597,522
Investment in associates	9	13,158,387	13,496,479
Available for sale investments	10	3,909,388	4,383,456
		<u>155,318,070</u>	<u>157,335,746</u>
<b>Current assets</b>			
Trading properties	11	68,692,384	88,622,842
Accounts receivable and prepayments	12	30,888,277	27,546,152
Murabaha investment		1,060,000	0
Bank balances and cash	13	1,258,345	1,944,613
		<u>101,899,006</u>	<u>118,113,607</u>
<b>TOTAL ASSETS</b>		<u>257,217,076</u>	<u>275,449,353</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	14	105,591,538	105,591,538
Share premium		-	26,430,246
Statutory reserve	15	1,473,038	3,586,118
General reserve	15	2,288	2,288
Treasury shares	16	(1,473,038)	(1,473,038)
Foreign currency translation reserve		149,810	1,156,884
Accumulated losses		(5,342,768)	(34,142,845)
<b>Total equity</b>		<u>100,400,868</u>	<u>101,151,191</u>
<b>Non-current liabilities</b>			
Murabaha payables	17	13,358,795	12,079,457
Istisna'a payable	18	1,567,030	1,962,715
Accounts payable and accruals	19	9,254,720	16,951,812
Employees' end of service benefits		142,253	142,729
		<u>24,322,798</u>	<u>31,136,713</u>
<b>Current liabilities</b>			
Obligations under finance lease		230,112	232,022
Murabaha payables	17	58,100,973	80,158,656
Istisna'a payable	18	442,769	1,308,080
Accounts payable and accruals	19	73,719,556	61,462,691
		<u>132,493,410</u>	<u>143,161,449</u>
<b>Total liabilities</b>		<u>156,816,208</u>	<u>174,298,162</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>257,217,076</u>	<u>275,449,353</u>

  
 Marzooq R. Al-Rashdan  
 Chairman

The attached notes 1 to 26 form part of these consolidated financial statements.

Abyaar Real Estate Development Company K.S.C. (Closed) and Subsidiary

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2011

	<i>Notes</i>	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
<b>OPERATING ACTIVITIES</b>			
Profit (loss) for the year		256,751	(4,996,913)
Adjustment for:			
Depreciation	5	164,804	233,654
Islamic finance costs		3,688,112	2,818,584
Provision for employees end of service benefits		43,278	3,191
Impairment of property and equipment	5	-	748,517
Impairment loss on properties under development	6	932,483	3,391,949
Realized loss on sale of available for sale investments		114,342	-
Gain on sale of investment properties		(126,496)	-
Unrealized gain on revaluation of investment properties	7	(1,120,652)	(6,521,879)
Share of results of joint ventures	8	712,595	-
Share of results of associates	9	303,426	-
Impairment loss on trading property	11	750,000	-
Provision/ write off of accounts receivable	12	189,392	1,537,986
Loss on foreign exchange		569,802	1,193,288
		<u>6,477,837</u>	<u>(1,591,623)</u>
Changes in working capital:			
Accounts receivable and prepayments		(3,383,755)	(4,790,654)
Accounts payable and accruals		5,022,382	2,438,326
Trading properties		10,251,439	-
Cash from (used in) operations		18,367,903	(3,943,951)
Islamic finance costs paid		(3,688,112)	(2,818,584)
Employees' end of service benefits paid		(43,754)	(52,461)
Net cash from (used in) operating activities		<u>14,636,037</u>	<u>(6,814,996)</u>
<b>INVESTING ACTIVITIES</b>			
Additions to property and equipment	5	-	(27,159)
Additions to properties under development	6	(260,848)	(821,307)
Additions to investment properties	7	(886,278)	(506,654)
Additions to investment in joint ventures	8	(102,080)	-
Proceeds from sale of available for sale investment		192,000	-
Proceeds from sale of investment properties		752,000	-
Murabaha investment		(1,060,000)	-
Net movement in restricted bank accounts		(258,471)	10,748
Net cash used in investing activities		<u>(1,623,677)</u>	<u>(1,344,372)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from sale of treasury shares		-	770,000
Murabaha payable – net		(12,196,178)	6,982,408
Istisna'a payable – net		(1,243,979)	277,736
Net cash (used in) from financing activities		<u>(13,440,157)</u>	<u>8,030,144</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(427,797)</b>	<b>(129,224)</b>
Bank balance and cash at 1 January		905,655	1,034,879
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	13	<u><u>477,858</u></u>	<u><u>905,655</u></u>

The attached notes 1 to 26 form part of these consolidated financial statements.



Abyaar Real Estate Development Company K.S.C. (Closed) and Subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	<i>Share capital KD</i>	<i>Share premium KD</i>	<i>Statutory reserve KD</i>	<i>General reserve KD</i>	<i>Treasury shares KD</i>	<i>Foreign currency translation reserve KD</i>	<i>Accumulated losses KD</i>	<i>Total KD</i>
Balance at 1 January 2011	105,591,538	26,430,246	3,586,118	2,288	(1,473,038)	1,156,884	(34,142,845)	101,151,191
Profit for the year	-	-	-	-	-	-	256,751	256,751
Other comprehensive loss	-	-	-	-	-	(1,007,074)	-	(1,007,074)
Total comprehensive loss for the year	-	-	-	-	-	(1,007,074)	256,751	(750,323)
Accumulated losses extinguished (Note 14)	-	(26,430,246)	(2,113,080)	-	-	-	28,543,326	-
<b>Balance at 31 December 2011</b>	<b>105,591,538</b>	<b>-</b>	<b>1,473,038</b>	<b>2,288</b>	<b>(1,473,038)</b>	<b>149,810</b>	<b>(5,342,768)</b>	<b>100,400,868</b>
Balance at 1 January 2010	105,591,538	26,430,246	3,586,118	1,892,288	(4,133,038)	3,291,034	(29,145,932)	107,512,254
Loss for the year	-	-	-	-	-	-	(4,996,913)	(4,996,913)
Other comprehensive loss	-	-	-	-	-	(2,134,150)	-	(2,134,150)
Total comprehensive loss for the year	-	-	-	-	-	(2,134,150)	(4,996,913)	(7,131,063)
Sale of treasury shares	-	-	-	(1,890,000)	2,660,000	-	-	770,000
Balance at 31 December 2010	105,591,538	26,430,246	3,586,118	2,288	(1,473,038)	1,156,884	(34,142,845)	101,151,191

The attached notes 1 to 26 form part of these consolidated financial statements.

## 1 ACTIVITIES

The consolidated financial statements of Abyaar Real Estate Development Company K.S.C. (Closed) (the "parent company") and subsidiary (the "group") for the year ended 31 December 2011 were authorised for issue by the parent company's board of directors on 15 February 2012. 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 Qebila Area, P.O. Box 4238, Safat 13043, Kuwait.

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

### 2.1 FUNDAMENTAL ACCOUNTING CONCEPT

The group has prepared the consolidated financial statements under the going concern concept of accounting. As stated in the Note 17 and Note 19, at 31 December 2011, the group was unable to meet on due dates its murabaha and amounts payable to a third party of approximately KD 28.2 million (2010: KD 51.7 million) and KD 49.1 million (2010: KD 34.8 million) respectively, and its current liabilities exceeded the current assets by approximately KD 30.6 million (2010: KD 25 million) at 31 December 2011. 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:

- During the year, the parent company has settled its murabaha obligations amounting to KD 23 million.
- The group is in discussion with remaining lenders to arrange for settlement, rescheduling and providing collateral coverage for its remaining murabaha payables.
- The group and a vendor are in negotiations to settle payable for the purchase of a property amounting to KD 56.4 million by transfer of the same property back to the vendor. This will result in reduction in group's current liabilities by KD 56.4 million. The final agreement will be signed on completion of legal formalities (Note 11).

Based on the above, and the fact that the group's total assets exceed its liabilities by approximately KD 100.4 million at 31 December 2011, 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.

### 2.2 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.

### 2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent company and its subsidiary as at 31 December 2011.

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.

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	Percentage of ownership		Principal activities
		31 December 2011	2010	
Al Ain Al Ahlia for General Trading Company W.L.L.	Kuwait	100%	100%	Real estate activities

### 2.4 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.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Business combinations and goodwill (continued)**

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.

**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.

**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.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and equipment (continued)**

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.

**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.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**Trading properties**

Trading properties are held for short term purposes and are carried at the lower of cost and net realizable value determined on an individual basis. Cost comprises the purchase cost of real estate and other expenses incurred in order to complete the transaction. Net realizable value is based on estimated selling price in the ordinary course of the business less any further costs to be incurred on disposal of real estate.

**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.

**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.

**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.

**Murabaha payables**

Murabaha payables represents 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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

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.

### 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.

### 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 and bank balances" and financial liabilities include "accounts payable and accruals, murabaha and istisna'a payable 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.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Recognition and derecognition of financial assets and liabilities (continued)**

*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.

*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.



**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 recognised 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.

**Fair values**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and the fair value estimates.

Underlying the definitions of fair value is the presumption that the group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

*Available for sale investments*

For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the statement of financial position date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to recent arm's length market transactions, an earnings multiple, or an industry specific earnings multiple or a value based on a similar publicly traded company, or is based on the expected cash flows of the investment, or the underlying net asset base of the investment. Fair value estimates take into account liquidity constraints and assessment for any impairment.

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair values (continued)**

*Investment properties*

For investment properties comprising developed properties and properties under development, fair value is supported by indicative market prices. Valuation is carried out by independent valuers who hold a recognised and relevant professional qualification and who have recent experience in the location and category of the investment property being valued.

**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.

## 2.4 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.

## 3.1 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:

### *IAS 24 Related Party Transactions (Amendment)*

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any major impact on the financial position or performance of the group.

### *IAS 32 Financial Instruments: Presentation (Amendment)*

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the group because the group does not have these type of instruments.

### **Improvements to IFRSs**

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements

*IFRS 3 Business Combinations:* The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

### *IFRS 7 Financial Instruments — Disclosures*

The amendment to standard was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

### *IAS 1 Presentation of Financial Statements*

The amendment to standard clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements. The group provides this analysis in consolidated statement of comprehensive income.

### 3.1 CHANGES IN ACCOUNTING POLICIES (continued)

Other amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the group:

- IFRS 3 Business Combinations- (Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination.)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

### 3.2 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 have an impact on disclosures, financial position or performance when applied at a future date. The group intends to adopt these standards when they become effective.

#### *IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*

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 amendment affects presentation only and has therefore no impact on the group's consolidated financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

#### *IAS 27 Separate Financial Statements (as revised in 2011)*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### *IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the group's consolidated financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2011.

#### *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. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The standard is effective for annual periods beginning on or after 1 January 2015.

**3.2 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)**

*IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation -Special Purpose Entities.

It establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 11 Joint Arrangements*

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Ventures.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The amendment is deemed to have no impact on the financial statements of the group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 12 Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

**4 BASIC AND DILUTED PROFIT (LOSS) PER SHARE**

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

There are no dilutive potential ordinary shares.

	<i>2011</i>	<i>2010</i>
	<i>KD</i>	<i>KD</i>
Profit (loss) for the year	<u>256,751</u>	<u>(4,996,913)</u>
	<i>Shares</i>	<i>Shares</i>
Weighted average number of shares outstanding during the year	<u>1,047,423,032</u>	<u>1,047,423,032</u>
Basic and diluted profit (loss) per share	<u>0.25 fils</u>	<u>(4.77) fils</u>

Abyaar Real Estate Development Company K.S.C. (Closed) and Subsidiary

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

5 PROPERTY AND EQUIPMENT

2011	<i>Buildings KD</i>	<i>Furniture and fixtures KD</i>	<i>Computers KD</i>	<i>Vehicles KD</i>	<i>Total KD</i>
Cost					
At 1 January 2011	876,718	585,998	202,252	26,531	1,691,499
Deletions	-	-	(38,254)	-	(38,254)
Foreign currency adjustment	(13,379)	(4,824)	1,637	(137)	(16,703)
At 31 December 2011	<u>863,339</u>	<u>581,174</u>	<u>165,635</u>	<u>26,394</u>	<u>1,636,542</u>
Depreciation					
At 1 January 2010	135,275	316,411	165,635	17,482	634,803
Depreciation for the year	101,914	60,492	-	2,398	164,804
Foreign currency adjustment	(2,500)	(1,500)	-	(568)	(4,568)
At 31 December 2011	<u>234,689</u>	<u>375,403</u>	<u>165,635</u>	<u>19,312</u>	<u>795,039</u>
Net carrying amount					
At 31 December 2011	<u>628,650</u>	<u>205,771</u>	<u>-</u>	<u>7,082</u>	<u>841,503</u>
2010	<i>Buildings KD</i>	<i>Furniture and fixtures KD</i>	<i>Computers KD</i>	<i>Vehicles KD</i>	<i>Total KD</i>
Cost					
At 1 January 2010	1,660,700	572,264	206,410	27,110	2,466,484
Additions	-	26,908	251	-	27,159
Impairment	(748,517)	-	-	-	(748,517)
Foreign currency adjustment	(35,465)	(13,174)	(4,409)	(579)	(53,627)
At 31 December 2010	<u>876,718</u>	<u>585,998</u>	<u>202,252</u>	<u>26,531</u>	<u>1,691,499</u>
Depreciation					
At 1 January 2010	85,904	213,798	104,159	12,812	416,673
Depreciation for the year	52,569	110,583	65,354	5,148	233,654
Foreign currency adjustment	(3,198)	(7,970)	(3,878)	(478)	(15,524)
At 31 December 2010	<u>135,275</u>	<u>316,411</u>	<u>165,635</u>	<u>17,482</u>	<u>634,803</u>
Net carrying amount					
At 31 December 2010	<u>741,443</u>	<u>269,587</u>	<u>36,617</u>	<u>9,049</u>	<u>1,056,696</u>

Building with carrying value of KD 628,650 (2010: KD 741,443) is mortgaged as collateral against murabaha payable (Note 17).

6 PROPERTIES UNDER DEVELOPMENT

	<i>2011 KD</i>	<i>2010 KD</i>
At 1 January	34,363,820	114,997,024
Additions	260,848	821,307
Reclassified to trading properties (Note 11)	-	(75,640,187)
Impairment loss	(932,483)	(3,391,949)
Foreign currency adjustment	(247,229)	(2,422,375)
At 31 December	<u>33,444,956</u>	<u>34,363,820</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 32,314,046 (2010: KD 32,253,152) are mortgaged as collateral against murabaha payable (Note 17).

Abyaar Real Estate Development Company K.S.C. (Closed) and Subsidiary

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7 INVESTMENT PROPERTIES

	<i>KD</i>	<i>KD</i>
At 1 January	93,437,773	88,427,833
Additions	886,278	506,654
Disposals	(626,172)	-
Unrealized gain on revaluation	1,120,652	6,521,879
Foreign currency adjustment	(721,695)	(2,018,593)
At 31 December	<u>94,096,836</u>	<u>93,437,773</u>
<b>Comprising:</b>		
Properties under development	87,346,290	86,124,566
Developed properties	6,750,546	7,313,207
At 31 December	<u>94,096,836</u>	<u>93,437,773</u>

Investment properties include certain plots of land located in United Arab Emirates acquired by the group under build-operate-transfer agreements. These plots of land are held under operating leases and are classified and accounted for as investment properties; accordingly, the operating leases for the land are accounted for as finance leases. At the reporting date the carrying value of these properties is KD 27,060,060 (2010: KD 33,945,647).

At the reporting date, investment properties with a carrying value of KD 35,409,060 (2010: KD 56,999,547) are mortgaged as collateral against murabaha payable (Note 17).

8 INVESTMENT IN JOINT VENTURES

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
At 1 January	10,597,522	10,828,776
Additions	102,080	-
Share of results	(712,595)	-
Foreign currency adjustment	(120,007)	(231,254)
At 31 December	<u>9,867,000</u>	<u>10,597,522</u>

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.

9 INVESTMENT IN ASSOCIATES

<i>Name of the company</i>	<i>Country of Incorporation</i>	<i>% equity interest</i>		<i>Activities</i>
		<i>2011</i>	<i>2010</i>	
Abyaar Qatar Real Estate Development Company K.S.C. (Closed)	Kuwait	21%	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%	26.7%	Real Estate Development

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9 INVESTMENT IN ASSOCIATES (continued)

	2011 KD	2010 KD
At 1 January	13,496,479	10,966,922
Fair value of net tangible assets acquired	-	2,549,597
Share of results	(303,426)	-
Foreign currency adjustment	(34,666)	(20,040)
At 31 December	<u>13,158,387</u>	<u>13,496,479</u>

Investment in an associate amounting to KD 4,256,957 (2010: KD 4,139,603) is mortgaged as collateral against murabaha payable (Note 17).

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

	2011 KD	2010 KD
<b>Share of associates' statement of financial position:</b>		
Assets	13,909,865	14,343,984
Liabilities	(751,478)	(847,505)
Net assets	<u>13,158,387</u>	<u>13,496,479</u>
<b>Share of the associates' revenue and loss:</b>		
Revenue	-	-
Loss	<u>(303,426)</u>	<u>-</u>

The associates are not listed on any stock exchange.

10 AVAILABLE FOR SALE INVESTMENTS

These represent investments in unquoted securities and unquoted managed funds amounting to KD 3,909,388 (2010: KD 4,383,456) 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 is of the view that no further impairment provision is required as at 31 December 2011 in respect of these investments.

Available for sale investment amounting to KD 2,486,963 (2010: KD 2,507,605) is mortgaged as collateral against murabaha payable (Note 17).

11 TRADING PROPERTIES

	2011 KD	2010 KD
At 1 January	88,622,842	13,265,956
Additions	4,500,000	-
Disposals	(22,751,520)	-
Reclassified from properties under development (Note 6)	-	75,640,187
Impairment loss	(750,000)	-
Foreign currency adjustment	(928,938)	(283,301)
At 31 December	<u>68,692,384</u>	<u>88,622,842</u>

No property is mortgaged as collateral against murabaha payable (2010: KD 13,265,956) (Note 17).



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11 TRADING PROPERTIES (continued)

Trading property with carrying value of KD 68,692,384 (2010: KD 69,262,558) is held in the name of a third party.

The management of the parent company is in negotiation with the vendor to settle the payable on purchase of trading property of KD 56,391,125 (2010: KD 56,859,193) (Note 19) by transferring the trading property with carrying value of KD 68,692,384 (2010: KD 69,262,558) back to the vendor. Management is confident of a positive outcome from the negotiations and expects to recover the difference between the carrying value of the trading property and amount payable to the vendor on settlement. Pending completion of legal formalities and signing of the settlement agreement, no provision has been made in the consolidated statement of income for the year ended 31 December 2011 for any amount that may not be recoverable.

12 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2011 KD	2010 KD
Receivable on sale of properties under development	6,968,457	4,521,205
Prepaid expenses and commissions	1,499,080	2,599,190
Amounts due from a related party (Note 20)	4,566,950	3,825,619
Advance for purchase of property and equipment	2,106,646	2,123,797
Construction cost receivable	13,390,343	11,193,825
Other receivables	2,356,801	3,282,516
	<u>30,888,277</u>	<u>27,546,152</u>

During the year ended 31 December 2010, the parent company reached settlement agreement for receivable on sale of properties under development due from related parties. Under the terms of the agreement, the parent company has acquired 26.7% shares in an associate Bayan Mo'atamada General Trading Company W.L.L. amounting to KD 2,549,597. The difference between the net receivable balance and the fair value of investment in the associate amounting to KD 1,532,246 is recorded as a provision for doubtful accounts receivable in the 2010 consolidated statement of income (Note 20).

As at 31 December 2011, gross receivable on sale of properties under development of KD 7,391,264 (2010: KD 7,582,405) were impaired. Movements in the provision for doubtful receivable on sale of properties under development are as follows:

	2011 KD	2010 KD
At 1 January	3,061,200	9,848,889
Charge for the year	-	1,532,246
Written off	-	(8,319,935)
At 31 December	<u>3,061,200</u>	<u>3,061,200</u>

Other receivables are stated net of provision for doubtful debts of KD 5,740 as at 31 December 2011 (2010: KD 5,740).

Accounts receivables amounting to KD 189,392 were written off during the current year as these were not considered recoverable by the management of the parent company.

13 BANK BALANCES AND CASH

	2011 KD	2010 KD
Cash	6,313	6,357
Bank balances	1,252,032	1,938,256
	<u>1,258,345</u>	<u>1,944,613</u>
Less: Restricted bank balances	(780,487)	(1,038,958)
	<u>477,858</u>	<u>905,655</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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**14 SHARE CAPITAL**

The share capital of the parent company consists of:

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
Authorized ordinary shares of 100 fils each	<u>105,591,538</u>	<u>106,727,500</u>
Issued and fully paid ordinary shares of 100 fils each	<u>105,591,538</u>	<u>105,591,538</u>

On 5 June 2011, the Extra Ordinary General Meeting of the shareholders of the parent company approved to extinguish accumulated losses of KD 28,543,326 against share premium of KD 26,430,246 and statutory reserve of KD 2,113,080.

On 22 June 2011, the Extra Ordinary General Meeting of the shareholders of the parent company approved to reduce authorized share capital of the parent company from KD 106,727,500 to KD 105,591,538.

At 31 December 2011, issued and fully paid up capital of the parent company amounted to 1,055,915,380 shares (2010: 1,055,915,380 shares) of 100 fils each.

**15 RESERVES****a) Statutory reserve**

In accordance with the Commercial Companies Law and the parent company's Articles of Association, no transfer has been made to statutory reserve, since the group has accumulated losses.

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, Board of Directors of the parent company has resolved not to make any transfer 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.

**16 TREASURY SHARES**

The balance of treasury shares at the end of the year was 7,750,000 shares (representing 0.73% from the total outstanding shares) carried at cost of KD 1,473,038 (31 December 2010: KD 1,473,038) and with a market value of KD 224,750 (31 December 2010: KD 217,250).

**17 MURABAHA PAYABLES**

Murabaha payables has been disclosed as follows:

	<i>2011</i> <i>KD</i>	<i>2010</i> <i>KD</i>
<b>Non current:</b>		
Gross amount	14,555,471	12,323,899
Less: deferred profit payable	(1,196,676)	(244,442)
	<u>13,358,795</u>	<u>12,079,457</u>
<b>Current:</b>		
Gross amount	60,014,108	81,804,545
Less: deferred profit payable	(1,913,135)	(1,645,889)
	<u>58,100,973</u>	<u>80,158,656</u>

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17 MURABAHA PAYABLE (continued)

The fair value of murabaha payable approximates the carrying value as at 31 December 2011. The effective rate of profit payable approximates 8% (2010: 7.5%) per annum.

As at 31 December 2011, group has past due murabaha payable obligations of KD 28,229,518 (2010: KD 51,730,453) and suspended the principal repayments on murabaha payable. For subsequent developments, see Note 2.

Murabaha payable amounting to KD 47,432,863 (2010: KD 45,967,032) is secured by way of collaterals in the form of property and equipment amounting to KD 628,650 (2010: 741,443) (Note 5), properties under development amounting to KD 32,314,046 (2010: KD 32,253,152) (Note 6), investment properties amounting to KD 35,409,060 (2010: KD 56,999,547) (Note 7), investment in associates amounting to KD 4,256,957 (2010: KD 4,139,603) (Note 9), available for sale investments amounting to KD 2,486,963 (2010: KD 2,507,605) (Note 10) and trading properties amounting to Nil (2010: KD 13,265,956) (Note 11).

18 ISTISNA'A PAYABLE

Istisna'a payable has been disclosed as follows:

	2011 KD	2010 KD
<b>Non current</b>		
Gross	1,779,675	2,392,450
Less: deferred profit payable	(212,645)	(429,735)
	<u>1,567,030</u>	<u>1,962,715</u>
<b>Current</b>		
Gross	593,185	1,437,880
Less: deferred profit payable	(150,416)	(129,800)
	<u>442,769</u>	<u>1,308,080</u>

Istisna'a payable has a maturity period of 3 years with an effective rate of profit payable of approximately 9% (2010: 9%) per annum. The Istisna'a payable is secured by a charge over the underlying assets in the project.

As at 31 December 2011, group has past due istisna'a payable obligation of Nil (2010: KD 839,767).

19 ACCOUNTS PAYABLE AND ACCRUALS

	2011 KD	2010 KD
<b>Non current</b>		
Advances from customers	9,254,720	9,328,591
Payable on purchase of trading property	-	7,623,221
	<u>9,254,720</u>	<u>16,951,812</u>
	2011 KD	2010 KD
<b>Current</b>		
Amounts due to related parties (Note 20)	4,942,614	312,762
Provision for government fees	59,096	59,586
Accrued expenses	1,242,689	1,443,502
Payable on purchase of trading property	56,391,125	49,235,972
Payable on purchase of investment properties	2,250,226	2,317,223
Other payables	8,833,806	8,093,646
	<u>73,719,556</u>	<u>61,462,691</u>

As at 31 December 2011, payable on purchase of trading property amounting to KD 49,098,429 (2010: KD 34,799,510) is past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**20 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.

Transactions with related parties included in the consolidated statement of income are as follows:

	<i>Total 2011 KD</i>	<i>Total 2010 KD</i>
Provision for doubtful receivables	-	1,532,246

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

	<i>Major shareholders KD</i>	<i>Associates KD</i>	<i>Total 2011 KD</i>	<i>Total 2010 KD</i>
Amount due from a related party (Note 12)	4,566,950	-	4,566,950	3,825,619
Amounts due to related parties (Note 19)	290,540	4,652,074	4,942,614	312,762
Acquisition of investment in an associate (Note 12)	-	-	-	2,549,597
Acquisition of trading property	-	4,500,000	4,500,000	-
Key management compensation:			<i>2011 KD</i>	<i>2010 KD</i>
Short term benefits			147,324	162,699
Employees' end of service benefits			82,662	61,403
<b>Total</b>			<u>229,986</u>	<u>224,102</u>

**21 COMMITMENTS AND CONTINGENCIES**

At 31 December 2011 the group has commitments in respect of future capital expenditure and outstanding letter of credits amounting to KD 1,510,000 (2010: KD 2,000,000) and KD 46,821 (2010: KD 22,923) respectively relating to properties under development.

At 31 December 2011 the group has provided bank guarantees in the ordinary course of business amounting to KD 309,577 (2010: Nil) from which it is anticipated that no material liabilities will arise.

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22 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.

	<i>UAE</i>		<i>Kuwait</i>		<i>Egypt and other GCC countries</i>		<i>Total</i>	
	<i>2011 KD</i>	<i>2010 KD</i>	<i>2011 KD</i>	<i>2010 KD</i>	<i>2011 KD</i>	<i>2010 KD</i>	<i>2011 KD</i>	<i>2010 KD</i>
Segment revenue	7,991,734	5,986,272	-	-	1,188,600	-	9,180,334	5,986,272
Depreciation	(82,402)	(116,827)	(82,402)	(116,827)	-	-	(164,804)	(233,654)
Impairment loss on properties under development	(932,483)	(1,083,746)	-	-	-	(2,308,203)	(932,483)	(3,391,949)
Provision/ write off of accounts receivable	(189,392)	(1,537,986)	-	-	-	-	(189,392)	(1,537,986)
Impairment of trading properties	(750,000)	-	-	-	-	-	(750,000)	-
Share of results of associates	-	-	(303,426)	-	-	-	(303,426)	-
Share of results of joint venture	(712,595)	-	-	-	-	-	(712,595)	-
Segment result	<u>3,265,802</u>	<u>1,464,013</u>	<u>(4,197,652)</u>	<u>(4,152,723)</u>	<u>1,188,601</u>	<u>(2,308,203)</u>	<u>256,751</u>	<u>(4,996,913)</u>
Segment assets	<u>165,090,850</u>	<u>177,209,420</u>	<u>19,770,103</u>	<u>18,906,031</u>	<u>72,356,123</u>	<u>79,333,902</u>	<u>257,217,076</u>	<u>275,449,353</u>
Segment liabilities	<u>28,316,183</u>	<u>20,426,271</u>	<u>72,108,899</u>	<u>95,587,930</u>	<u>56,391,126</u>	<u>58,283,961</u>	<u>156,816,208</u>	<u>174,298,162</u>

31 December 2011

**23 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's continuing 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.

**23.1 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 2011 was KD 21,565,474 (2010: KD 18,776,230) 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 on sale of properties under development amounting to KD 4,330,064 (2010: KD 4,521,205) 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>
<b>At 31 December 2011</b>		
Accounts receivable	<u>21,565,474</u>	<u>3,061,200</u>
	<i>Gross Exposure KD</i>	<i>Impairment Provision KD</i>
<b>At 31 December 2010</b>		
Accounts receivable	<u>18,776,230</u>	<u>3,061,200</u>

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23 RISK MANAGEMENT (continued)

23.2 Liquidity risk

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

The table below summarizes the maturity profile of the group's financial liabilities at 31 December 2011 and 31 December 2010 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately and are included in less than three months.

Financial liabilities	Less than 3 months KD	3 to 12 months KD	1 to 5 years KD	Total KD
<b>31 December 2011</b>				
Murabaha payable	32,169,342	27,844,766	14,555,471	74,569,579
Istisna'a payable	-	593,185	1,779,675	2,372,860
Obligations under lease finance	230,112	-	-	230,112
Accounts payables and accruals	63,432,652	10,286,904	9,254,720	82,974,276
<b>Total financial liabilities</b>	<b>95,832,106</b>	<b>38,724,855</b>	<b>25,589,866</b>	<b>160,146,827</b>
<b>31 December 2010</b>				
Murabaha payable	69,018,735	12,785,810	12,323,899	94,128,444
Istisna'a payable	1,138,824	299,056	2,392,450	3,830,330
Obligations under lease finance	232,022	-	-	232,022
Accounts payables and accruals	36,606,271	24,856,420	16,951,812	78,414,503
<b>Total financial liabilities</b>	<b>106,995,852</b>	<b>37,941,286</b>	<b>31,668,161</b>	<b>176,605,299</b>

The group is dependent on availability of the continued support from the financial institutions. As at 31 December 2011, murabaha and istisna'a payable of KD 28,229,518 (2010: KD 52,570,220) and amounts payable to a third party (a vendor) of KD 48,645,611 (2010: KD 34,799,510) matured but not settled. The group is in the process of restructuring its debt obligations, see Note 2. The management is confident that they will be able to renew the terms of matured murabaha and istisna'a payables and amounts due to a third party.

The table below shows the contractual expiry by maturity of the group's contingent liabilities and commitments.

Financial liabilities	Less than 3 months KD	3 to 12 months KD	1 to 5 years KD	Total KD
<b>31 December 2011</b>				
Contingent liabilities	309,577	-	-	309,577
Commitments	456,821	1,100,000	-	1,556,821
<b>31 December 2010</b>				
Commitments	822,923	1,200,000	-	2,022,923

**23 RISK MANAGEMENT (continued)****23.3 Market Risk**

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market prices. Market risks arise for open positions in interest rate, currency and equity product, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. Market risk is managed on the basis of pre-determined asset allocations across various asset categories, a continuous appraisal of market conditions and trends and the directors' estimate of long and short term changes in fair value.

**22.3.1 Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The group's borrowings are in the form of Murabahas or Istisna'a which are Islamic financing instruments with a fixed rate of profit. Consequently the group is not exposed to interest rate risk.

**23.3.2 Currency risk**

Currency risk is managed on the basis of limits determined by the parent company's Board of Directors and a continuous assessment of the group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the group does not hedge foreign currency exposures.

The effect on profit (loss) before KFAS, NLST and Zakat (due to change in the fair value of monetary assets and liabilities), as a result of 1% change in currency rate against the UAE Dirham from levels applicable at the year end, with all other variables held constant is shown below:

	<i>Currency</i>	<i>Change in currency rate in %</i>	<i>Effect on profit (loss) KD</i>
<b>31 December 2011</b>	KD	+1	(171,197)
31 December 2010	KD	+1	44,779

**23.4 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.

**24 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the group is a going concern without any intention, or need, to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances, murabaha investments, available for sale investments and accounts receivables. Financial liabilities consist of murabaha payables, istisna'a payable, accounts payable and accruals and obligations under finance lease.

The fair values of financial instruments, with the exception of certain available for sale investments carried at cost (see Note 10) are not materially different from their carrying values as most of these assets and liabilities are of short term maturity.



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## 25 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 2011 and 31 December 2010, however, due to the global credit and liquidity crisis, the shareholders made changes to the composition of equity (Note 14) and the management is in the process of assessing its debt and capital requirements; see Note 2.

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 Istnsa'a, trade and other payables, less cash and cash equivalents. Capital represents total equity of the group.

	2011 KD	2010 KD
Islamic financing (Murabaha and Istnsa'a)	73,469,567	94,247,912
Other liabilities	83,346,641	80,050,250
Less: bank balance and cash	<u>(1,258,345)</u>	<u>(1,944,613)</u>
Net debt	155,557,863	172,353,549
Equity	100,400,868	101,151,191
Gearing ratio	<u>155%</u>	<u>170%</u>

## 26 COMPARATIVE INFORMATION

Comparative amounts for the previous year have been restated in the consolidated statement of financial position to be consistent with the presentation for the current year. This reclassification had no impact on the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement.