2012 Annual Report

Salhia

H.H Sheikh
Sabah Al-Ahmed Al-Jaber Al Sabah
Amir of The State of Kuwait

H.H Sheikh
Nawaf Al-Ahmed Al-Jaber Al Sabah
Crown Prince of The State of Kuwait

H.H Sheikh
Jaber Al-Mubarak Al-Hamad Al-Sabah
Prime Minister

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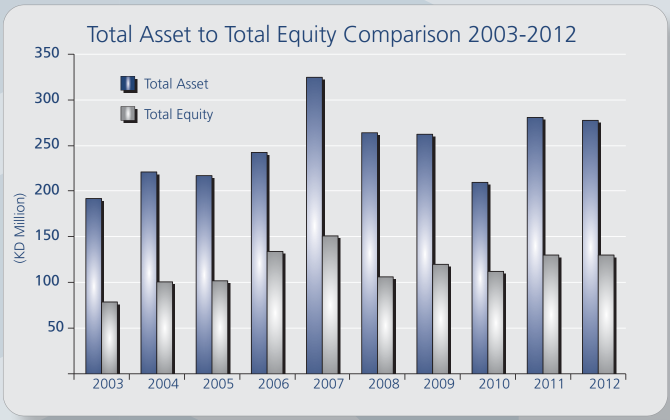
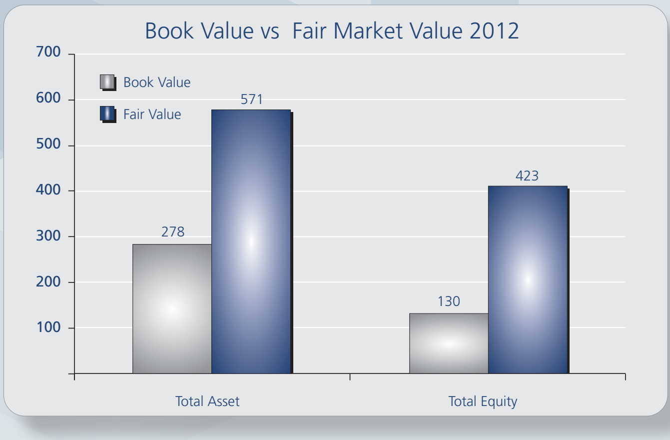
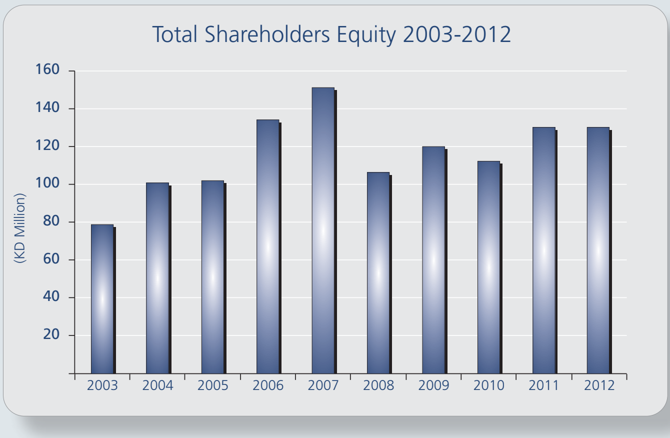
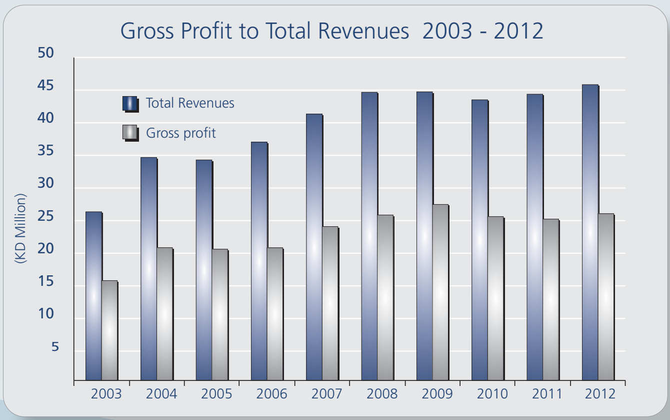




- The fair value for the company total assets as evaluated by independent professional evaluators in the GCC&Europe 571/M KD (278/M KD Book value)
- Total fair market value for the company shareholders equity estimated to be 423/M (130/M KD Book value)





Board Members

GHAZI FAHAD ALNAFISI
CHAIRMAN AND MANAGING DIRECTOR

FAISAL ABDUL MOHSEN AL-KHATRASH
VICE CHAIRMAN

ANWAR ABDULAZIZ AL-USAIMI
DEPUTY MANAGING DIRECTOR

AHMAD FAISAL AL-ZABIN
BOARD MEMBER

YOUSSEF ESSA AL-OTHMAN
BOARD MEMBER

ABDULRAHMAN ABDULAZIZ AL BABTAIN
BOARD MEMBER

ABDULAZIZ GHAZI ALNAFISI
BOARD MEMBER

MARZOUK FAJHAN AL-MUTAIRI
BOARD MEMBER

Executive Management

GHAZI FAHAD ALNAFISI
CHAIRMAN AND MANAGING DIRECTOR

ANWAR ABDULAZIZ AL-USAIMI
DEPUTY MANAGING DIRECTOR

ABDULAZIZ GHAZI ALNAFISI
INVESTMENT GROUP HEAD

HANY A. ABDELNOUR
FINANCE , ACCOUNTING & HR GROUP HEAD

NASSER BADER AL-GHANIM
GROUP INVESTMENT MANAGER

ENG. KIFAH GEORGES
GROUP CONSTRUCTION MANAGER

ABDULNASSER BADER ALTURKAIT
GROUP INFORMATION TECHNOLOGY MANAGER

MOHAMMAD KHALIL AL-MUSAIBEEH
GROUP ACCOUNTING MANAGER

ENG. BADER KHALIFAH AL-ADSANI
GROUP PROPERTY MANAGER

ALI JASSIM ABUL
GROUP HUMAN RESOURCES & ADMINISTRATION
DEPUTY MANAGER

CHAIRMAN'S STATEMENT

Dear Shareholders

It gives me great pleasure to present to you, on behalf of the Board of Directors, the annual report and the financial statements of Salhia Real Estate Company for the year ended December 31, 2012.

In the year ended 2012, Salhia Real Estate Company has continued the positive performance and managed to implement its financial policies and strategies despite of the negative economic climate both locally and globally, as well as the significant decline in real estate activity.

As a summary of the financial performance for the year ended 2012, the company has realized a profit amounting to K.D. 8.25 million, which represents a profit of 16.7 Fils per share. A growth of 15% was achieved in comparison to last year's profit of K.D. 7.17 million and 15.5 Fils per share.

The company's total assets amounted to K.D. 278 million as compared with K.D. 280 million for the year ended 2011 that is a 1.1% decrease .

The company managed to reduce its debts to KD. 144 million compared with KD. 150 million for the year ended 2011 that is 3.4% decrease.

On the other hand, Salhia Real Estate Company has maintained stability of the shareholders equity, which amounted to K.D. 130 million for the current year compared the same value in the year 2011. Accordingly, the book value maintained its level at 254 Fils for 2012 with the same value for last year.

The company's revenues increased reaching K.D. 45 million compared to K.D. 43 million for last year , representing a growth of 3.3% .

Taking in consideration that all previous financial figures mentioned above were recorded on the basis of historical cost, and were naturally booked on the financial statement for the year ended 2012.

With regards to the actual market value for the total Company's assets, which were assessed by professional valuers at the end of 2012, the value amounted to K.D. 571 million and ownership equity at the amount of K.D. 423 million increasing the book value per share to 826 Fills.

Honorable Shareholders,

In conclusion, I would like to express my appreciation and gratitude to all shareholders of Salhia Real Estate Company, its Board of Directors, Executive management and employees in all departments for their efforts and support to achieve the aspired success of the Company.

As we remember the late, Mr. Ahmed Faisal Al-Zabin (Board Member), who was a dear brother and friend to all , worked with loyalty and dedication throughout his period as a board member in Salhia Real Estate Company, God bless the deceased and may his soul rest in peace.

Praying to Allah to continue His blessings on us all and preserve our beloved country under the leadership of His Highness Sheikh Sabah Al-Ahmed Al-Jaber Al-Sabah, the Amir of Kuwait, the Crown Prince His Highness Sheikh Nawaf Al-Ahmed Al-Jaber Al-Sabah and the Prime Minister Sheikh Jaber Al-Mubarak Al-Hamad Al-Sabah and his judicious government.

Ghazi Fahad Alnafisi

Chairman & Managing Director

Salhia Real Estate Company

REPORT
OF THE BOARD
OF DIRECTORS

LOCAL INVESTMENTS

SALHIA COMMERCIAL COMPLEX

Salhia Commercial Complex has kept its place among other complexes since its inception in 1978 until the present day ranked as one of the most important shopping malls and commercial offices in the region due to its location in the middle of Kuwait City reputed as the first multi-specialist and diversified complex with its three commercial floors (ground Floor - mezzanine I - mezzanine II) offering an impressive collection of world-famous brands, cafes and restaurants. The five upper floors of offices are occupied by major international companies, corporations and government institutions. Also Salhia Complex has a three hundred and seventy six indoor parking. Salhia Commercial Complex management has kept path with the development, modernization and renovation for the mall which has helped in maintaining a 100% occupancy for many years.

SALHIA PLAZA

Salhia Plaza occupies a privileged position by its nearness to the Salhia Commercial Complex above two basements parking floors in front of Salhia Commercial Complex consisting of four hundred twenty eight parking spaces. The site contains selected trendy restaurants and cafes surrounded in the middle by a fountain illuminated at night and a large landscaping making of it a great choice for visitors since its launch in the year 2005.

SAHAB TOWER

Sahab Tower consists of twenty-storey commercial offices, and three floors of retail shops, that has a unique overview of the beautiful Kuwait City enjoying a great location. The Tower is connected to Salhia Commercial Complex with a bridge that helped it become one of the most important and prominent towers in Kuwait. Also Sahab Tower is occupied by largest international and local companies. Since 1997, Sahab Tower is keeping a rate of occupancy of 100% due to the excellence of services it provides.

JW MARRIOTT KUWAIT CITY

The five star JW Marriott Kuwait City hotel is a name that is truly synonymous with the word "luxury". Located in the heart of downtown Kuwait City, this elegant 313 room hotel comprises 73 suites, an executive level with a private lounge, library, fully equipped health club and indoor swimming pool with steam baths and Jacuzzi. Five floors are exclusively dedicated to business travelers. The hotel is home to some of the country's finest restaurants – with most of the outlets receiving major international upgrades like "Fresh Food Cooked to Your Taste concepts" to their dining offerings in 2012 to maintain the world-class standards that they have been renowned for. The hotel is attached to the legendary Salhia Commercial Complex which offers world class luxurious shopping facilities. Apart from the full implementation of high-speed wireless internet in all guest rooms and public areas, the hotel is currently ongoing a soft refurbishment of its rooms to make guest stays a more luxurious, authentic experience. The reception area underwent a renovation to enhance the check-in process while several notable changes like the carpets and artwork in the rooms and corridors, landscaping around the hotel areas, and the upgrade of the furniture and marble in several areas around the hotel have proved to be an exciting step forward for the overall guest experience at the JW Marriott Kuwait City. The hotel continues to be the venue of choice for celebrations, large meetings and conferences. Aside from flexible meeting spaces and professional event management teams, large multi-purpose ballrooms on the 1st and 16th floors offer up to 1,560 square meters of space and creativity to host some of the most important events in Kuwait.

ARRAYA COMMERCIAL CENTRE

The management of Salhia Real Estate Company is proud of the high services level that Arraya Centre grant to its visitors who enjoy the shopping environment Arraya Centre offers to them. Arraya Centre with its three shopping floors comprises of a wide selection of retail fashion stores and international franchises. Arraya Centre includes seven commercial office floors hosting major local and international corporations. The building as well was incorporated with multi-storey car park to serve the visitors separated by Arraya Plaza that has a vast space, which gives a relaxed sensation for those who are keen to enjoy the external weather below modern umbrellas and surrounded by water fountains. Arraya Plaza has a flooring that is covered with luxury granite; in a space of 3000 square meters, and enlightened by innovative lights which gives a sensational feeling for visitors of this memorable area. Arraya Plaza can also host big social and entertainment events and functions.

ARRAYA TOWER

Arraya Tower is one of a kind in Kuwait city with its 60 floors, served with 16 elevators, supported by state of the art technology and with high standard architectural finishing. The rentable floors are very flexible between 250 square meters and up to 740 square meters. Arraya Tower offers its best services to the valuable tenants who enjoy the multi-storey park consisting of 1,400 parking space and by offering 24/7 security and maintenance service in the tower. The leasing process was carried in 2012 to rent the limited available floors in the tower to reach 90% occupancy.

COURTYARD BY MARRIOTT KUWAIT CITY

For businessmen choosing a productive, energizing stay to achieve their business goals, the 264 room Courtyard by Marriott Kuwait City is the ideal hotel for refreshing business. In the heart of Kuwait City's financial district, this modern property is attached to the magnificent Arraya Commercial Center. The Courtyard by Marriott is a leader in dining experiences. Aside from the relaxing Tiramisu Café and Atrium Lounge popular for their reasonable fares and beverages varieties, the famous Soul & Spice Indian restaurant is now in its second year of operations and is now a trusted venue for contemporary Indian cuisine among locals, expatriates and groups. The panoramic Atrium Restaurant has undergone an international upgrade in dining presentation with the introduction of "Fresh Food Cooked to Your Taste" buffet concepts. A fully equipped health club with the latest cardiovascular machines and an inspiring 25 m long rooftop swimming pool along with the latest massage therapies and treatments ensures a holistic stay. For corporate meetings and events, the flexibility of six elegantly appointed meeting rooms with world-class technology and event management teams is much appreciated by guests.

ARRAYA BALLROOM

Proudly managed by Marriott International, the Arraya Ballroom is an epitome of luxury and unmatched elegance in the heart of Kuwait. Long renowned for hosting some of the country's most important and historic events and celebrations, this 1,500 square meter ballroom is one of the largest event venues in Kuwait with unparalleled meeting, event services and facilities. The Ballroom can be divided into six massive sub sections to fit any customized size, alongside a grand foyer and its own exclusive driveway with parking for over 1,400 vehicles. In 2012, the Arraya Ballroom underwent a major change with a "New Level of Creativity". It now proudly features exquisite new lines of glassware, china ware, floral presentations, futuristic lighting and sound equipment along with a dedicated professional events management team capable of handling events of any size. The Ballroom's prowess in wedding cakes, ice carvings, themed food styles and presentations on a global level among many new changes have ensured that the Arraya Ballroom is truly the leader and destination of choice for events in Kuwait.

AL-ASIMA PROJECT

Salhia real estate company owns 99.7% of Al Asima company, which is planned to be one of the pioneer projects in the Kuwait market as it will engender an Economic development in Kuwait. The overall cost of the project is planned to reach 240 million Kuwaiti dinars.

The project has been delayed and postponed due to some external causes, which have reflected negatively in the launching. However, Salhia Real Estate Company is still eager to proceed with the project, which has recently signed a long lasting financial agreement in compliance with Islamic rules with one of the local banks amounted 53 million Kuwait dinar to reschedule Al Asima company debt. We hope that the government takes real measures to help the outstanding projects, which will definitely engender external investment and enriches the local economic boost, likewise we, at Salhia Real Estate Company, are prepared and willing to extend all the support needed in order to re-launch the project that will bring benefits to the local economy and our valuable shareholders.


قاعة الراية
ARRAYA BALLROOM

REPORT
OF THE BOARD
OF DIRECTORS

INTERNATIONAL INVESTMENTS

United Kingdom

Key Property Investments

World economic uncertainty has encouraged many sovereign funds, institutional, corporate and private investors to diversify their investment strategies worldwide and the UK property market continues to benefit from a significant level of this interest. The focus is generally upon London, for both commercial and residential properties and values have been sustained and even risen to reflect the demand against supply. Whilst an increasing amount of this interest is now beginning to move outside of London, it has yet to have a truly national impact. Banks remain very selective in their lending policies and there are limited facilities available for investment or development. Property companies and investors are increasingly turning to other methods of raising debt and financial resources including bond issues. New types of lenders are also entering the market, with UK and international institutional funds and others selectively offering finance. Banks are selling troubled loans portfolios of property, particularly outside London, and sometimes at an apparent discount. They are also reluctant to lend against property investments with shorter lease profiles. The combined effect of this is still impacting on valuations even when the underlying income stream is sound and values have to take into account market transactions when assessing annual valuations. KPI has renegotiated current loan arrangements and is maintaining rental income from the portfolio through careful asset management and profit taking where possible through sales. The Company remains sound with an excellent income stream which is being maintained and increased. Management strategy remains the same, exploiting opportunities for rental and capital growth throughout the portfolio and sales where appropriate. At Farnborough, the Vue Cinema construction is scheduled to start during 2013 which, together with new restaurant units will create a new energy in the town centre. Refurbishment of Queensmead and other proposals will also enhance the continuing development of the retail offer in the town. Progress continues for the redevelopment of the Elephant & Castle Shopping Centre. This includes a possible three new towers for mainly residential use. KPI are now seeking a partner for this very significant and extensive refurbishment, extension and new development. Projected start on site is likely to be late 2015. In the lead up to these development works, occupancy levels remain strong and the asset management strategy is proving to be highly successful.

Salhia International Investments Ltd.

BEORMA QUARTER BIRMINGHAM

Salhia Real Estate Co Ksc, through Salhia Investments (Birmingham) Ltd (SIBL), has acquired a regeneration site of approximately 8,000 square meters in the centre of Birmingham, adjacent to the Bullring Shopping Centre and Selfridges. Birmingham City Council has designated the area as The Southern Gateway in their Big City Plan and has been very supportive of the proposed scheme from inception. The site is strategically situated between Birmingham New Street and Moor Street stations and is close to the proposed High Speed Rail 2 (HSR2) London – Birmingham link station which will dramatically cut down travelling times between the cities. Revised planning permission, due a change of use of part of the site for an apart-hotel occupier, has been obtained for Phase 1 of the development. This is scheduled for a start on site in February 2013, taking advantage of competitive pricing available at the current time. Construction will take approximately 15 months and is being financed by HSBC in a market where bank finance for any investment or development is limited. This is a significant endorsement of the project. Phases 2 & 3 will follow when sufficient prelettings to tenants have been agreed. Whilst the office letting market in the UK generally remains relatively weak, positive discussions continue with a number of potential occupiers for these phases. The take up for office accommodation in Birmingham remains steady but is balanced between new developments and older accommodation. Tenants remain very selective and remain attracted to high quality schemes.

GERMANY

HADDIA HOLDING

Haddia Holding GmbH, 90,89% owned by Salhia Real Estate Company, through its subsidiary DANA manages a total of 1,580 units in 4 properties for assisted living apartments and 13 nursing homes. All properties are located in north western region of Germany. The properties are owned by SAREC, a fully owned subsidiary of Haddia. The head office is located in Hannover. The group employs around 900 employees. Haddia has been focusing on high quality service and property to provide best living conditions for elderly citizens. In 2012, DANA was selected among the best rated operators of nursing homes in Germany. One of the major current challenges in Germany is the lack of qualified employees. In order to maintain high quality standards there is a need for highly qualified employees. DANA became a pioneer in successfully recruiting highly qualified nurses from Spain to close this gap. Due to the high demand in Germany for qualified and certified staff this might develop into an interesting business for DANA to enter into. DANA Lifestyle will be established to provide affordable nursing homes for the elderly. Development was planned to start in 2012. The company has acquired two plots but due to delays in the permit process and the start of the winter season the construction will start in spring 2013.

OMAN

The Omani government has paid special attention to the city of Sohar, and placed it in the priorities of the future plan of the Omani economy in 2020. Sohar is currently experiencing significant investment and economic shifts making it the focus of attention of many local and international investors and businessmen. This change is due to a series of investment and economic projects in Sohar industrial area where Port of Sohar is located. Established in 2002, the port has a strategic importance due to its nearness to the Strait of Hormuz and it is considered a world class port. Salhia purchased eleven plots in the city of Sohar for an approximate total value of K.D. 4.7 million with a total area of 135,000 square meters. Once the master plan is finalized a future increase of these plots value is anticipated. In the meantime, Salhia is seeking interesting opportunities on best use of all of its land holdings.

HUMAN RESOURCES

Salhia Real Estate Company has continued to develop its employees at all work sites to serve the company and its customers through the Human resources and Administration group, in which the customer service requires a base of highly skilled staff and specialists in the areas of the company supported by the latest technical and administrative systems. The efficiency of the company's staff selection reflects a quality of the company's management and its continuity in personnel investment by providing the best human talent in all areas of work , continue in restructuring, updating the administrative and financial systems, which is reflected in allowing the staff to work more effectively and in an integrated manner, without any obstacles.

INFORMATIOM TECHNOLOGY

Salhia utilizes sophisticated IT systems to accommodate all aspects of its business and development needs by incorporating highly qualified personnel and equipping them with the latest technology. Completion of the design and constructing separated website for each property, to providing in-depth detailed and useful information for client's benefits. Upgraded our main core application and database on Oracle to release 12.

FINANCIAL
HIGHLIGHTS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Salhia Real Estate Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively 'the Group'), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SALHIA REAL ESTATE COMPANY K.S.C. (CLOSED) (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 2012, 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 requirements

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 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, 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 Companies Law No 25 of 2012, nor of the Articles of Association have occurred during the year ended 31 December 2012 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
ERNST & YOUNG
AL AIBAN, AL OSAIMI & PARTNERS

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

7 March 2013
Kuwait

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 KD	2011 KD
Revenues		**45,321,068**	43,854,456
Operating costs		**(19,390,897)**	(18,130,433)
Gross profit		**25,930,171**	25,724,023
Share in joint venture's results	8	**1,443,909**	1,748,062
Share of associate's results		**-**	(582,378)
General and administrative expenses		**(4,044,807)**	(3,878,087)
Depreciation	9,10	**(6,261,103)**	(6,241,945)
Sales and marketing expenses		**(958,133)**	(758,358)
Investment income	3	**2,945,277**	1,542,106
Foreign exchange gain (loss)		**121,766**	(8,489)
Interest income		**153,281**	45,408
Other income		**254,440**	437,345
Impairment loss on financial assets available for sale	7	**(2,989,943)**	(1,894,024)
Impairment loss on investment properties	9	**-**	(1,785,312)
Finance costs		**(7,096,346)**	(6,006,416)
Profit before tax		**9,498,512**	8,341,935
Foreign tax		**(724,706)**	(748,504)
PROFIT BEFORE CONTRIBUTION TO KFAS, NLST, ZAKAT AND DIRECTORS' FEES		**8,773,806**	7,593,431
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		**(79,154)**	(68,119)
National Labour Support tax (NLST)		**(219,873)**	(187,690)
Zakat		**(79,154)**	(68,119)
Directors' fees	18	**(120,000)**	(120,000)
PROFIT FOR THE YEAR		**8,275,625**	7,149,503
Attributable to:			
Equity holders of the Parent Company		**8,254,536**	7,174,133
Non-controlling interests		**21,089**	(24,630)
		8,275,625	7,149,503
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITYHOLDERS OF THE PARENT COMPANY	4	**16.7 fils**	15.5 fils

The attached notes 1 to 25 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 KD	2011 KD
Profit for the year		**8,275,625**	7,149,503
Other comprehensive income:			
Net movement in cumulative changes in fair value		**1,755,646**	(152,211)
Realised gain on sale of financial assets available for sale	3	**(2,759,413)**	(1,041,853)
Impairment loss transferred to consolidated statement of income	7	**-**	1,782,899
Exchange differences arising on translation of foreign operations		**2,294,950**	32,345
Other comprehensive income for the year		**1,291,183**	621,180
Total comprehensive income for the year		**9,566,808**	7,770,683
Attributable to:			
Equity holders of the Parent Company		**9,524,186**	7,695,961
Non-controlling interests		**42,622**	74,722
		9,566,808	7,770,683

The attached notes 1 to 25 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 KD	2011 KD
ASSETS			
Cash and cash equivalents	5	**7,397,712**	4,517,511
Fixed deposits		**3,464,317**	3,275,925
Inventories		**369,842**	334,955
Accounts receivable and other assets	6	**5,024,348**	4,754,484
Financial assets available for sale	7	**17,008,769**	22,975,563
Interest in joint venture	8	**13,312,728**	10,439,964
Investment properties	9	**143,705,580**	143,038,397
Property and equipment	10	**87,498,060**	91,438,106
TOTAL ASSETS		**277,781,356**	280,774,905
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and a financial institution	11	**2,296,392**	14,609,561
Accounts payable and other liabilities	12	**16,906,989**	15,019,277
Commercial financing	13	**28,705,540**	41,160,589
Islamic financing	14	**97,000,000**	79,250,000
TOTAL LIABILITIES		**144,908,921**	150,039,427
EQUITY			
Share capital	15	**51,272,341**	51,272,341
Share premium		**35,055,163**	35,055,163
Treasury shares	16	**(3,941,495)**	(3,941,495)
Treasury shares reserve	16	**1,817,810**	1,817,810
Statutory reserve	17	**21,368,779**	20,489,290
Voluntary reserve	17	**20,489,290**	20,489,290
Other reserve		**(663,600)**	-
Retained earnings		**8,261,137**	8,315,941
Fair value reserve		**(1,840,520)**	(836,753)
Foreign currency translation reserve		**(1,634,528)**	(2,539,533)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		**130,184,377**	130,122,054
Non-controlling interests		**2,688,058**	613,424
TOTAL EQUITY		**132,872,435**	130,735,478
TOTAL LIABILITIES AND EQUITY		**277,781,356**	280,774,905

Ghazi Fahad Alnafisi
Chairman and Managing Director

Faisal Abdul Mohsen Al-Khatrash
Vice Chairman

The attached notes 1 to 25 form part of these consolidated financial statements

Salhia Real Estate Company K.S.C. (closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

Attributable to equity holders of the Parent Company

	Share capital	Share premium	Treasury shares	Treasury shares reserve	Statutory reserve	Voluntary reserve	Employee share options plan reserve	Other reserve	Retained earnings	Fair value reserve	Foreign currency translation reserve	Subtotal	Non-controlling interests	Total equity
	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD	KD
Balance at 1 January 2012	51,272,341	35,055,163	(3,941,495)	1,817,810	20,489,290	20,489,290	-	-	8,315,941	(836,753)	(2,539,533)	130,122,054	613,424	130,735,478
Profit for the year	-	-	-	-	-	-	-	-	8,254,536	-	-	8,254,536	21,089	8,275,625
Other comprehensive income	-	-	-	-	-	-	-	-	-	(1,003,767)	2,273,417	1,269,650	21,533	1,291,183
Total comprehensive income	-	-	-	-	-	-	-	-	8,254,536	(1,003,767)	2,273,417	9,524,186	42,622	9,566,808
Acquisition of additional shares in a subsidiary (Note19b)	-	-	-	-	-	-	-	(2,032,012)	-	-	-	(2,032,012)	2,032,012	-
Other adjustment in a subsidiary	-	-	-	-	-	-	-	1,368,412	-	-	(1,368,412)	-	-	-
Dividends (Note 15)	-	-	-	-	-	-	-	-	(7,429,851)	-	-	(7,429,851)	-	(7,429,851)
Transfer to reserves	-	-	-	-	879,489	-	-	-	(879,489)	-	-	-	-	-
Balance at 31 December 2012	**51,272,341**	**35,055,163**	**(3,941,495)**	**1,817,810**	**21,368,779**	**20,489,290**	**-**	**(663,600)**	**8,261,137**	**(1,840,520)**	**(1,634,528)**	**130,184,377**	**2,688,058**	**132,872,435**
Balance at 1 January 2011	40,592,531	27,524,906	(3,439,031)	1,807,235	19,727,484	19,727,484	-	-	9,667,784	(1,425,588)	(2,472,526)	111,710,279	538,702	112,248,981
Profit for the year	-	-	-	-	-	-	-	-	7,174,133	-	-	7,174,133	(24,630)	7,149,503
Other comprehensive loss	-	-	-	-	-	-	-	-	-	588,835	(67,007)	521,828	99,352	621,180
Total comprehensive loss	-	-	-	-	-	-	-	-	7,174,133	588,835	(67,007)	7,695,961	74,722	7,770,683
Increase in capital	10,040,343	7,530,257	-	-	-	-	-	-	-	-	-	17,570,600	-	17,570,600
Purchase of treasury shares	-	-	(630,179)	-	-	-	-	-	-	-	-	(630,179)	-	(630,179)
Sale of treasury shares	-	-	127,715	10,575	-	-	-	-	-	-	-	138,290	-	138,290
Employees share options	-	-	-	-	-	-	1,432,409	-	-	-	-	1,432,409	-	1,432,409
Employee share options exercised	639,467	-	-	-	-	-	(1,432,409)	-	792,942	-	-	-	-	-
Dividends (Note 15)	-	-	-	-	-	-	-	-	(7,795,306)	-	-	(7,795,306)	-	(7,795,306)
Transfer to reserve	-	-	-	-	761,806	761,806	-	-	(1,523,612)	-	-	-	-	-
Balance at 31 December 2011	51,272,341	35,055,163	(3,941,495)	1,817,810	20,489,290	20,489,290	-	-	8,315,941	(836,753)	(2,539,533)	130,122,054	613,424	130,735,478

The attached notes 1 to 25 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 KD	2011 KD
OPERATING ACTIVITIES			
Profit before contribution to KFAS, NLST, Zakat and Directors' fees		**8,773,806**	7,593,431
Adjustments for:			
Share in joint venture's results, net of related tax	8	**(935,695)**	(1,227,798)
Share in associate's results		**-**	582,378
Depreciation	9,10	**6,261,103**	6,241,945
Provision for employees' terminal benefits		**802,333**	494,671
Investment income	3	**(2,945,277)**	(1,542,106)
Foreign exchange (gain) loss		**(121,766)**	8,489
Interest income		**(153,281)**	(45,408)
Finance costs		**7,096,346**	6,006,416
Impairment loss on financial assets available for sale	7	**2,989,943**	1,894,024
Impairment loss on investment properties	9	**-**	1,785,312
Write off of investment properties	9	**118,728**	-
		21,886,240	21,791,354
Changes in operating assets and liabilities			
Inventories		**(34,887)**	(29,845)
Accounts receivable and other assets		**(269,864)**	1,707,017
Accounts payable and other liabilities		**747,846**	(3,695,149)
Cash from operations		**22,329,335**	19,773,377
Employees' terminal benefits paid		**(197,703)**	(175,544)
KFAS paid		**(68,119)**	(97,140)
National Labour Support Tax paid		**(196,900)**	(269,462)
Zakat paid		**(78,600)**	(104,814)
Directors' fees paid		**(120,000)**	(120,000)
Net cash from operating activities		**21,668,013**	19,006,417
INVESTING ACTIVITIES			
Acquisition of a subsidiary, net of cash outflow		**-**	(41,765,952)
Purchase of financial assets available for sale		**(1,494,497)**	(2,334,312)
Proceeds from sale of financial assets available for sale		**6,226,994**	2,500,463
Additions to investment properties and property and equipment	9,10	**(1,546,378)**	(1,758,174)
Proceeds from sale of investment properties and property and equipment		**6,663**	98,746
Investment income received		**185,864**	500,253
Dividends received from joint venture	8	**-**	872,000
Interest income received		**153,281**	53,999
Fixed deposits		**(188,392)**	(3,275,925)
Net cash from (used in) investing activities		**3,343,535**	(45,108,902)
FINANCING ACTIVITIES			
Issue of share capital		**-**	17,570,600
Proceeds from issue of shares under employee share options plan		**-**	639,467
Purchase of treasury shares		**-**	(630,179)
Proceed from sale of treasury shares		**-**	138,290
Proceeds from commercial and Islamic financings obtained		**25,204,016**	25,000,000
Commercial and Islamic financings repaid		**(20,800,959)**	(18,921,354)
Due from a financial institution (repaid) received		**(421,102)**	166,624
Finance costs paid		**(6,808,682)**	(5,976,704)
Dividends paid		**(7,412,553)**	(7,795,306)
Net cash (used in) from financing activities		**(10,239,280)**	10,191,438
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**14,772,268**	(15,911,047)
Cash and cash equivalents at the beginning of the year		**(9,670,948)**	6,240,099
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	**5,101,320**	(9,670,948)

The attached notes 1 to 25 form part of these consolidated financial statements

1 CORPORATE INFORMATION

The consolidated financial statements of Salhia Real Estate Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively "the Group") for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Parent Company's Board of Directors on 7 March 2013. The general assembly of the shareholders of the Parent Company has the power to amend these consolidated financial statements after issuance.

The Group comprises Salhia Real Estate Company K.S.C. (Closed) and its subsidiaries listed in Note 19.

The Parent Company is a Kuwaiti Shareholding Company incorporated on September 16, 1974 and is listed on the Kuwait Stock Exchange. The Group's main activities comprise real estate leasing and development of commercial properties and hotel operations in Kuwait and care home operation in Germany. Surplus funds are invested in real estate and securities portfolios managed by specialist investment managers.

The Companies Law issued on 26 November 2012 by Decree Law no 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No 15 of 1960. According to article 2 of the Decree, the Parent Company has a period of 6 months from 29 November 2012 to regularize its affairs in accordance with the Companies Law.

The Parent Company's registered address is Salhia Complex, Mohammed Thunayan Al-Ghanim, P.O. Box 23413 Safat 13095 Kuwait.

2.1 BASIS OF PREPARATION

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990.

Basis of preparation
The consolidated financial statements are prepared under the historical cost convention as modified for the revaluation at fair value of financial assets available for sale.

The consolidated financial statements have been presented in Kuwaiti Dinars, which is the Parent Company's functional and presentation currency.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company for the year ended 31 December 2012 and the financial statements of its subsidiaries prepared to a date not earlier than three months of the Parent Company's year end as disclosed in Note 19.

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-group balances and transactions, including intra-group profits and unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full on consolidation. Adjustments are made for non-uniform accounting policies.

Non-controlling interests represent the net assets (excluding goodwill) of consolidated subsidiaries not attributable directly, or indirectly, to the equity holders of the Parent Company. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

2.2 BASIS OF CONSOLIDATION (continued)

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 equity
- 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
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.3 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS recently issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as of 1 January 2012. However the implementation of new and amended IFRS and IFRIC interpretations did not have a significant impact on the Group's consolidated financial statements.

- *IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements*
- *IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*

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 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 the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its consolidated financial statements.

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

New and revised IASB Standards, IFRSs and IFRIC Interpretations issued, but not yet adopted
Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective. However, the Group expects no significant impact from the adoption of the amendments on its consolidated financial position or performance.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

New and revised IASB Standards, IFRSs and IFRIC Interpretations issued, but not yet adopted (continued)

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendment becomes effective for annual periods beginning on or after 1 July 2012. It changes the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to consolidated statement of income 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 no impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised)
Amended standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amended)
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 and become effective for annual periods beginning on or after 1 January 2014.

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 consolidated 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 Group is currently assessing the impact that this standard will have on the consolidated financial position and performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

2.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

New and revised IASB Standards, IFRSs and IFRIC Interpretations issued, but not yet adopted (continued)

IFRS 10 Consolidated Financial Statements
This standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces the portion of IAS 27 "Consolidated and Separate Financial Statements" that addresses the accounting for consolidated financial statements. The standard 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 judgment 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. The Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

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

IFRS 11 Joint Arrangements
The standard becomes effective for annual periods beginning on or after 1 January 2013. It replaces IAS 31 "Interests in Joint Ventures". The standard 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 Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
The amendment becomes effective for annual periods beginning on or after 1 January 2013. 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 Group is currently assessing the impact that this standard will have on the consolidated financial position and performance.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
- Rental income is recognised on a straight-line basis over the lease term.
- Interest income is recognized as it accrues using the effective interest rate method ("EIR").
- Hotel and care home income represents the invoiced value of services provided during the year.
- Dividend income is recognized when the Group's right to receive payment is established.
- Gain on sale of property is recognized when the sale has been consummated and the contracts have been signed, the significant risks and rewards of ownership have passed to the buyers and the Group has no continuing involvement in the property.
- Gain on sale of investments is recognized on a trade date basis.

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. Capitalisation 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.

The finance cost capitalized is calculated using the weighted average cost of borrowing after adjusting for borrowing associated with specific development. Where borrowings are associated with specific developments, the amount capitalized is the gross finance cost incurred on those borrowing less any investment income arising on their temporary investment. Finance cost is capitalized as from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Finance cost is also capitalized in the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

Taxation
Kuwait Foundation for the Advancement of Sciences (KFAS)
The Group calculates the contribution to KFAS at 1% of profit for the year (net of accumulated losses brought) after accounting for the transfer to statutory reserve.

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 taxable profit for the year. In determining taxable profit, profit of associates and subsidiaries subject to NLST and cash dividends from listed companies subject to NLST are deducted.

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

Taxation on overseas subsidiaries
Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

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 acquired. For each business combination, the acquirer measures the non controlling interest in the acquire either at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition costs incurred are expensed.

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 acquirer.

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

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 consolidated statement of income or as other comprehensive income. If the contingent consideration is classified as equity, it shall not be re-measured until it is finally settled within equity.

2.5 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 over 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 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 acquire 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.

Property acquisitions and business combinations

Where property is acquired through the acquisition of corporate interests, management of the Parent Company considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of the judgment is included in significant accounting judgments, estimates and assumptions disclosures.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, corporate acquisitions are accounted for as business combinations.

Cash and cash equivalents

For purpose of the consolidated statement of cash flows, cash and cash equivalents are short-term, highly liquid investments including short-term fixed deposits that are readily convertible to known amounts of cash with original maturities up to three months from the date of acquisition and that are subject to an insignificant risk of change in value, net of due to banks contractually due within three months.

Financial instruments – initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets within scope of IAS 39 are classified as financial assets at fair value through statement of income, loans and receivables, held-to-maturity investments or financial assets available for sale, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through statement of income, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and bank balances, fixed deposits, receivables and financial assets available for sale.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective yield method adjusted for impairment losses, if any. Losses arising from impairment are recognised in the consolidated statement of income.

Financial assets available for sale
Financial assets available for sale include equity securities. Equity securities classified as available for sale are those, which neither classified as held for trading nor designated at fair value through statement of income. Investments in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as cumulative changes in fair values in other comprehensive income until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss is removed from the fair value reserve and recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are stated as cost less impairment losses, if any.

Derecognition
A financial asset (or, where applicable, a part of financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive the cash flows from the asset have expired;
- the Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained

(ii) Impairment and uncollectibility of financial assets
The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(ii) Impairment and uncollectibility of financial assets (continued)

Financial assets available-for-sale
For financial asset available for sale, the Group assesses at each financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investment classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In relation to accounts receivable, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

(iii) Financial liabilities
Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through statement of income and loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in case of loans and borrowings, directly attributable transactions costs.

The Group's financial liabilities include accounts payable, certain other liabilities, commercial financing, Islamic financing and due to banks and a financial institution. At 31 December 2012, the Group did not have any financial liabilities at fair value through statement of income.

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

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

Commercial financing
After initial recognition, interest bearing commercial financing is subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate.

Islamic financing
Islamic financing represents Murabaha and Wakala financing taken under Murabaha and Wakala arrangements. Islamic financing is stated at the gross amount of the payable, net of deferred cost payable. Deferred cost payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

(iii) Financial liabilities (continued)

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

(iv) Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and the Group intends to settle on a net basis, or to realise the assets and liabilities simultaneously.

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 operations or to undertake a transaction on adverse terms.

Fair value of financial instruments
For financial instruments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the reporting date. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Financial instruments 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.

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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 the 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 income statement. After such 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.

Inventories

Inventories of food and beverages are valued at the lower of cost and net realizable value after making due allowance for any expired or slow-moving items. Cost is determined by the first-in, first-out method.

Net realizable value is based on estimated selling price less any further costs expected to be incurred on sale.

Inventories of operating supplies are valued at cost less due allowance for any obsolete or slow-moving items. Cost is determined on a weighted average basis.

Interest in joint venture

The Group has an interest in a joint venture which is a jointly controlled entity. 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.

Under the equity method, the interest in joint venture is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investee. Goodwill relating to a joint venture is included in the carrying amount of the investment and is not amortised. The Group recognises in the consolidated statement of income its share of the results of the joint venture from the date that influence effectively commenced until the date that it effectively ceases. Distributions received from the joint venture reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the joint venture arising from changes in the joint venture's equity. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes in the consolidated statement of comprehensive income.

Unrealised gains on transactions with joint venture are eliminated to the extent of the Group's share in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred. An assessment for impairment of interest in joint venture is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The joint venture's financial statements are prepared to the Parent Company's reporting date or to a date not earlier or later than three months of the Parent Company's reporting date. Where practicable, appropriate adjustments for non-uniform accounting policies are made to the joint venture's financial statements to bring them in line with the Group's accounting policies.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at depreciated cost less provision for impairment. Buildings are depreciated using the straight line method over their estimated useful lives which vary between 10 to 50 years.

The carrying amounts are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, properties are written down to their recoverable amount.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)
Investment property is derecognised when it has been disposed of or 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 year 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.

Properties under construction
Properties under construction are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset.

The carrying values of properties under construction 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.

Property and equipment
Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Freehold land is not depreciated. Depreciation on other assets is provided on a straight line basis at rates calculated to write-off the cost of each asset over its expected useful life as follows:

• Buildings and related immovable equipment	10 to 50 years
• Furniture and equipment	10 years
• Motor vehicles	5 years

The carrying amounts are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amount, and where carrying values exceed their recoverable amount, assets are written down to their recoverable amount.

The useful economic lives of property and equipment are reviewed at each financial year and revised for significant change where necessary.

Capital work in progress
Capital work in progress is carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset. Once completed, the asset is transferred to the respective assets class.

The carrying values of capital work in progress 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

The Parent Company's own shares are accounted for as treasury shares and are stated at purchase consideration including directly attributable costs. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is non-distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are distributed 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.

Share-based payment transactions

The Group operates an equity-settled, share-based employee share options plan (ESOP). Under the terms of the plan, share options are granted to eligible employees and are exercisable at the end of the vesting period. The fair value of the options is recognized as an expense over the vesting period with a corresponding effect in equity. The fair value of the options is determined using the Black-Scholes option pricing model.

The proceeds received from the exercise of the share options are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be incurred to settle the obligation.

Contingencies

Contingent liabilities are not recognized on the consolidated statement of financial position. They are disclosed in the consolidated financial statement unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized on the consolidated statement of financial position, but disclosed in the consolidated financial statement when an inflow of economic benefits is probable.

Foreign currency translation

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are included within foreign currency gain or loss in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Group companies
As at the reporting date, the assets and liabilities of foreign subsidiaries, and the carrying values of foreign associates and joint venture investments, are translated into the Parent Company's presentation currency (the Kuwaiti Dinars) at the rate of exchange ruling at the reporting date, and their statement of incomes are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to the particular foreign operation is recognised in the consolidated statement of income.

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

Judgements
In the process of applying the Group's accounting policies, management has made the following significant judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

Business combinations
The Group acquires subsidiaries that own real estate. At the time of acquisition, the Group considers whether the acquisition represents the acquisition of a business. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, hotel services, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Classification of real estate
Management of the Group decides on acquisition of a developed and under development property whether it should be classified as trading, investment property or properties and equipment.

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

The Group classifies property as investment property if it is acquired to generate rental income or for capital appreciation, or for undetermined future use.

The Group classifies property as property and equipment when it is acquired for owner occupation.

Classification of equity investments
All investments are classified as available for sale.

Impairment of financial assets available for sale
The Group treats financial assets available for sale 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. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements (continued)

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

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

Valuation of unquoted equity instruments
Valuation of unquoted equity instruments 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;
• An earnings multiple or industry specific earnings multiple;
• 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. There are a number of investments where this estimation cannot be reliably determined. As a result, these investments are carried at cost less impairment (see note 7).

3 INVESTMENT INCOME

	2012 KD	*2011 KD*
Gain on sale of financial assets available for sale	**2,759,413**	1,041,853
Dividend income	**185,864**	500,253
	2,945,277	1,542,106

4 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITYHOLDERS OF THE PARENT COMPANY

Basic:
Basic earnings per share attributable to equity holders of the Parent Company is computed by dividing the profit for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year (excluding treasury shares).

Diluted:
Diluted earnings per share attributable to the equity holders of the Parent Company is computed by dividing the profit for the year attributable to the equity holders of the Parent Company, adjusted for the effect of conversion of employees share options, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all employees share options. The Parent Company does not have outstanding share options under the employee share option plan as at 31 December 2012.

4 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY (continued)

	2012 KD	2011 KD
Profit for the year attributable to equity holders of the Parent Company (KD)	**8,254,536**	7,174,133
Weighted average number of ordinary shares outstanding during the year (excluding treasury shares)	**495,323,413**	463,269,769
Basic and diluted earnings per share attributable to equity holders of the Parent Company	**16.7 fils**	15.5 fils

5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following:

	2012 KD	2011 KD
Cash and bank balances	**7,397,712**	4,255,114
Fixed deposits (maturing within three months)	**-**	262,397
Cash and cash equivalents as per consolidated statement of financial position	**7,397,712**	4,517,511
Due to banks contractually due within three months (Note 11)	**(2,296,392)**	(14,188,459)
Cash and cash equivalents as per the consolidated statement of cash flows	**5,101,320**	(9,670,948)

Bank balances represent non-interest bearing current bank accounts held with local commercial banks.

Short-term fixed deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

6 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2012 KD	2011 KD
Hotel guests and care home residents receivables	**1,484,501**	1,127,447
Rent receivable	**379,451**	408,079
Staff receivables (Note 20)	**720,700**	804,005
Deposits and prepaid expenses	**491,761**	417,967
Advance payments to contractors	**55,202**	118,113
Other receivables	**1,892,733**	1,878,873
	5,024,348	4,754,484

6 ACCOUNTS RECEIVABLE AND OTHER ASSETS (continued)

Hotel guests and care home residents receivables and rent receivable are non-interest yielding and are generally on 30-90 days terms. Movement in the impairment of hotel guests and rent receivable is as follows:

	2012 KD	*2011 KD*
At 1 January	**248,203**	221,260
Charge of impairment for the year	**170,000**	26,943
Amount written off	**(25,252)**	-
At 31 December	**392,951**	248,203

As at 31 December, the analysis of hotel guests and care home residents receivables and rent receivable that were past due but not impaired is as follows:

		Past due but not impaired					
	Neither past due nor impaired	*<30 days*	*30 to 60 days*	*60 to 90 days*	*90 to 120 days*	*> 120 days*	Total
	KD	*KD*	*KD*	*KD*	*KD*	*KD*	*KD*
2012	**148,264**	**393,697**	**334,217**	**343,094**	**208,789**	**435,891**	**1,863,952**
2011	150,305	694,969	171,434	121,821	28,625	368,372	1,535,526

Hotel guests and care home residents receivables and rent receivable include amounts denominated in the following major currencies:

	2012 KD	*2011 KD*
Kuwaiti Dinar	**1,640,633**	1,296,591
EURO	**223,319**	229,529
GBP	-	9,406
	1,863,952	1,535,526

7 FINANCIAL ASSETS AVAILABLE FOR SALE

	2012 KD	2011 KD
Managed quoted portfolios	4,284,437	7,309,804
Managed funds	457,798	471,956
Unquoted securities	12,266,534	15,193,803
	17,008,769	22,975,563

	2012 KD	2011 KD
Local investments	5,534,110	7,563,298
Foreign investments	11,474,659	15,412,265
	17,008,769	22,975,563

Managed quoted portfolios represent local and foreign equity investments and are carried at market bid prices and fair values as reported by the portfolio managers. During the year, the Parent Company recorded an impairment loss of KD 8,031 and KD 98,775 (2011: KD 1,530,255 and KD 202,542) against local and foreign equity investments respectively.

Managed quoted portfolios included an investment portfolio with a carrying value of KD Nil (2011: KD 880,165) managed by a foreign financial institution which was partially funded by a short-term facility and secured by the investments portfolio. The facility was fully settled during the current year.

Investments in managed funds are carried at the latest net asset value provided by the fund managers.

Unquoted equity securities amounting to KD 7,800,319 (2011: KD 8,017,502) are carried at cost less impairment since fair values cannot be reliably estimated and the investment managers have been unable to indicate any estimates of the range within which fair values might lay. The management recorded an impairment loss of KD 173,051 (2011: KD 111,126) against these investments based on the most recently available information to them.

Unquoted equity securities include an investment with a carrying value of KD 4,466,215 (2011: KD 7,176,301) in a regional company (the "Company") which has filed a voluntary case under Chapter 11 of the United States Bankruptcy Code to protect the business and assets of the Company. During the year, the Group recorded an impairment loss of KD 2,710,086 (2011: KD 50,101) in the consolidated statement of income.

Determination of fair value and fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial assets available for sale by valuation technique:

Level 1: quoted (unadjusted) prices in active markets;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

7 FINANCIAL ASSETS AVAILABLE FOR SALE (continued)

31 December 2012	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Managed portfolios	**4,284,437**	**-**	**-**	**4,284,437**
Managed funds	**-**	**457,798**	**-**	**457,798**
Unquoted securities	**-**	**-**	**4,466,215**	**4,466,215**
	4,284,437	**457,798**	**4,466,215**	**9,208,450**

31 December 2011	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Managed portfolios	7,309,804	-	-	7,309,804
Managed funds	-	471,956	-	471,956
Unquoted securities	-	-	7,176,301	7,176,301
	7,309,804	471,956	7,176,301	14,958,061

During the year ended 31 December 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

8 INTEREST IN JOINT VENTURE

This represents the Group's 50% (2011: 50%) interest in a United Kingdom based joint venture entity, Key Property Investments, engaged in real estate leasing and development.

	2012 KD	2011 KD
Carrying amount of the investment in the joint venture:		
At 1 January	**10,439,964**	10,290,764
Share in the joint venture's results	**1,443,909**	1,748,062
Share in the joint venture's tax	**(508,214)**	(520,264)
Dividend received	**-**	(872,000)
Foreign currency translation adjustment	**1,937,069**	(206,598)
At 31 December	**13,312,728**	10,439,964
Share of joint venture entity's statement of financial position:		
Current assets	**3,408,405**	2,731,032
Long-term assets	**43,083,692**	42,576,165
Current liabilities	**(6,288,783)**	(2,757,733)
Long-term liabilities	**(26,890,586)**	(32,109,500)
Net assets	**13,312,728**	10,439,964
Share of joint venture entity's revenue and results:		
Revenues	**8,632,005**	5,403,051
Results after tax	**935,695**	1,227,798

9 INVESTMENT PROPERTIES

	Freehold land KD	*Buildings KD*	*Properties under construction KD*	*Total KD*
Balance at 1 January 2012	99,085,811	42,645,228	1,307,358	143,038,397
Additions	417,346	18,411	-	435,757
Transfers from property under construction (Note 10)	1,867,434	-	-	1,867,434
Depreciation charge for the year	-	(1,757,275)	-	(1,757,275)
Disposals/write off	(3,840)	-	(114,888)	(118,728)
Foreign currency translation adjustment	236,145	-	3,850	239,995
Balance at 31 December 2012	**101,602,896**	**40,906,364**	**1,196,320**	**143,705,580**
Cost	108,218,530	58,767,826	1,196,320	168,182,676
Accumulated depreciation	-	(17,861,462)	-	(17,861,462)
Impairment provision	(6,615,634)	-	-	(6,615,634)
Balance at 31 December 2012	**101,602,896**	**40,906,364**	**1,196,320**	**143,705,580**

	Freehold land KD	*Buildings KD*	*Properties under construction KD*	*Total KD*
Balance at 1 January 2011	20,665,375	43,968,523	1,444,474	66,078,372
Investment property arising from asset acquisition	80,186,517	-	-	80,186,517
Other additions	63,892	-	299,913	363,805
Transfers from property under construction	-	422,290	(422,290)	-
Depreciation charge for the year	-	(1,745,585)	-	(1,745,585)
Impairment loss	(1,785,312)	-	-	(1,785,312)
Foreign currency translation adjustment	(44,661)	-	(14,739)	(59,400)
Balance at 31 December 2011	99,085,811	42,645,228	1,307,358	143,038,397
Cost	105,701,445	58,749,415	1,307,358	165,758,218
Accumulated depreciation	-	(16,104,187)	-	(16,104,187)
Impairment provision	(6,615,634)	-	-	(6,615,634)
Balance at 31 December 2011	99,085,811	42,645,228	1,307,358	143,038,397

Investment properties with a carrying value of KD 4,749,310 (2011: KD 4,749,310) are registered in the name of a nominee. The nominee has confirmed in writing that the Parent Company is the beneficial owner of the properties.

The fair value of investment properties amounted to KD 336,065,033 (2011: KD 353,775,162) at the reporting date based on valuations obtained from two independent valuers, who are an industry specialised in valuing these types of investment properties. One of these valuers is a local bank and the other is a local reputable accredited valuer using acceptable methods of valuation such as sales comparison and income capitalization.

Properties under construction amounting to KD 1,196,320 (2011: KD 1,307,358) are carried at cost as the fair value cannot be reliably determined until such time the construction is complete. During the year, the Parent Company recorded an impairment loss of KD Nil (2011: KD 1,785,312) against a freehold land situated in the Kingdom of Bahrain in view of the political unrest in the country and based on the most recently available information to the management.

10 PROPERTY AND EQUIPMENT

	Freehold land KD	*Buildings* KD	Furniture *and equipment* KD	*Motor vehicles* KD	*Capital work in progress* KD	*Total* KD
Balance at 1 January 2012	12,496,224	67,843,721	8,303,817	85,289	2,709,055	91,438,106
Additions	-	9,425	852,569	25,239	223,388	1,110,621
Disposals	-	-	(6,663)	-	-	(6,663)
Transfers to investment properties (Note 9)	-	-	-	-	(1,867,434)	(1,867,434)
Transfers from capital work in progress	-	-	11,787	-	(11,787)	-
Depreciation charge for the year	-	(2,312,223)	(2,156,536)	(35,069)	-	(4,503,828)
Foreign currency translation adjustment	156,630	1,063,688	49,029	-	57,911	1,327,258
Balance at 31 December 2012	**12,652,854**	**66,604,611**	**7,054,003**	**75,459**	**1,111,133**	**87,498,060**
Cost	12,652,854	98,041,407	33,945,413	383,688	1,111,133	146,134,495
Accumulated depreciation	-	(31,436,796)	(26,891,410)	(308,229)	-	(58,636,435)
Net carrying amount at 31 December 2012	**12,652,854**	**66,604,611**	**7,054,003**	**75,459**	**1,111,133**	**87,498,060**

10 PROPERTY AND EQUIPMENT (continued)

	Freehold land KD	*Buildings* KD	Furniture *and equipment* KD	*Motor vehicles* KD	*Capital work in progress* KD	*Total* KD
Balance at 1 January 2011	12,647,304	71,038,682	9,431,845	82,108	2,585,223	95,785,162
Additions	-	2,350	778,612	37,790	575,617	1,394,369
Disposals	-	-	(9,554)	-	(89,192)	(98,746)
Transfers from capital work in progress	-	47,407	216,333	-	(263,740)	-
Depreciation charge for the year	-	(2,297,620)	(2,164,131)	(34,609)	-	(4,496,360)
Foreign currency translation adjustment	(151,080)	(947,098)	50,712	-	(98,853)	(1,146,319)
Balance at 31 December 2011	12,496,224	67,843,721	8,303,817	85,289	2,709,055	91,438,106
Cost	12,496,224	96,655,841	33,036,358	431,714	2,709,055	145,329,192
Accumulated depreciation	-	(28,812,120)	(24,732,541)	(346,425)	-	(53,891,086)
Net carrying amount at 31 December 2011	12,496,224	67,843,721	8,303,817	85,289	2,709,055	91,438,106

11 DUE TO BANKS AND A FINANCIAL INSTITUTION

	2012 KD	2011 KD
Due to banks (Note 5)	**2,296,392**	14,188,459
Due to a financial institution	**-**	421,102
	2,296,392	14,609,561

Due to banks represents bank overdraft subject to effective interest rate ranging from 4%-4.25% per annum (2011: 4.5%-5% per annum).

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2012 KD	2011 KD
Accounts payable	**4,445,176**	4,319,423
Retentions payable	**123,071**	141,737
Due on purchase of investment property	**1,148,978**	1,148,978
Accrued expenses	**3,600,317**	2,331,796
Deposits from tenants, hotel and care home guests	**514,049**	478,073
Rents received in advance	**951,565**	1,183,711
Employees' terminal benefits	**4,839,485**	4,234,854
Other payables	**1,284,348**	1,180,705
	16,906,989	15,019,277

13 COMMERCIAL FINANCING

Commercial financing are contractually due for repayment as follows:

	2012 KD	2011 KD
Instalments payable within one year	**1,133,392**	8,045,026
Instalments payable within one year to two years	**1,194,243**	4,101,630
Instalments payable within two years to three years	**1,243,716**	4,161,464
Instalments payable within three years to four years	**1,311,801**	1,210,347
Instalments payable after four years	**23,822,388**	23,642,122
	28,705,540	41,160,589

13 COMMERCIAL FINANCING (continued)

Commercial financing are denominated in the following currencies:

	2012 KD	2011 KD
Kuwaiti Dinars	-	13,000,000
Euro	**27,976,524**	28,160,589
GBP	**729,016**	-
	28,705,540	41,160,589

Commercial financing are repayable in equal periodic installments over variable periods of time with maturities extending to December 2030.

Commercial financing dominated in Kuwaiti Dinar carry variable interest rates, which range from 1.5% to 2.5% per annum (2011: 1.5% to 2.5% per annum) over the Central Bank of Kuwait discount rate. The foreign currency financing carries variable interest rates which range from 1.5% to 2.5% per annum (2011: 1.5% to 2.5%per annum) over Euribor.

Commercial financing amounting to KD 28,705,540 (2011: KD 28,160,589) has been obtained by a foreign subsidiary under the terms of which lenders have no recourse to the Parent Company in the event of default.

14 ISLAMIC FINANCING

	2012 KD	2011 KD
Murabaha financing	**87,500,000**	69,250,000
Wakala financing	**9,500,000**	10,000,000
	97,000,000	79,250,000

Islamic financing are contractually due for repayment as follows:

	2012 KD	2011 KD
Instalments payable within one year	**11,225,000**	9,250,000
Instalments payable within one year to two years	**18,691,667**	4,250,000
Instalments payable within two years to three years	**5,916,667**	12,750,000
Instalments payable within three years to four years	**13,916,667**	-
Instalments payable after four years	**47,249,999**	53,000,000
	97,000,000	79,250,000

The average profit rate attributable to Islamic financing during the years is 2% per annum (2011: 2.25% per annum over the Central Bank of Kuwait discount rate.

Islamic financing amounting to KD 53,000,000 has been obtained by a local subsidiary acquired during the year 2011, and is secured by an investment property with a carrying value of KD 80,239,517 owned by the Group. Under the terms of the liability, the lenders have no recourse to the Parent Company in the event of default.

15 SHARE CAPITAL AND GENERAL ASSEMBLY MEETING

At the annual general assembly of the shareholders of the Parent Company held on 9 April 2012, the shareholders approved the distribution of cash dividends of 15 fils per share (2010: 20 fils per share) amounting to KD 7,429,851 for the year ended 31 December 2011 (2010: KD 7,795,306) for shareholders registered on that date.

At the extraordinary assembly of the shareholders of the Parent Company held on 9 April 2012, the shareholders have approved the reductions of the authorized share capital from 513,801,307 shares to 512,723,413 shares of 100 fils each.

As at 31 December 2012, the authorized share capital consists of 512,723,413 shares (31 December 2011: 513,801,307 shares), and paid up capital of the Parent Company consists of 512,723,413 shares of 100 fils each (31 December 2011: 512,723,413 shares) which is paid in cash.

For the year ended 31 December 2012, the Board of Directors of the Parent Company has proposed cash dividends of 15 fils (2011: 15 fils) per share. This proposal is subject to the approval of the annual general assembly of the shareholder's of the Parent Company.

16 TREASURY SHARES

At 31 December 2012, the Parent Company held 17,400,000 (2011: 17,400,000) of its own shares, equivalent to 3.39% (2011: 3.39%) of the total issued share capital at that date. The market value of these shares at the reporting date was KD 6,438,000 (2011: KD 3,584,400). Reserves of the Parent Company equivalent to the cost of the treasury shares have been ear-marked as non distributable.

17 STATUTORY, VOLUNTARY AND GENERAL RESERVES

As required by the Companies Law and the Parent Company's articles of association, 10% of profit for the year before contribution to KFAS, NLST, Zakat and directors' fees and after offsetting accumulated losses brought forward, is required to be transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals or exceeds 50% of paid-up share capital. Distribution of this 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 accumulated profits are not sufficient for the payment of a dividend of that amount.

As required by the Parent Company's articles of association, 10% of profit for the year before contribution to KFAS, NLST, Zakat and Directors' fees after offsetting accumulated losses brought forward is required to be transferred to voluntary reserve. The Board of Directors of the Parent Company has proposed to discontinue annual transfer to voluntary reserve; this proposal is subject to the approval of the annual general assembly of the shareholder's of the Parent Company.

18 DIRECTORS' FEES

Directors' fees of KD 120,000 are subject to approval by the annual general assembly of the shareholders of the Parent Company. Directors' fees of KD 120,000 for the year ended 31 December 2011 were approved by the annual general assembly of the shareholders of the Parent Company held on 9 April 2012.

19 SUBSIDIARIES

Details of subsidiaries are set out below:

Name of the company	*Percentage of ownership* 2012	2011	*Country of incorporation*	*Reporting date*	*Principal activity*
Directly held:					
Haddia Holding GMBH	**90.89%**	90.89%	Germany	31 December 2012	Holding company
Drawbridge Securities Limited (a)	**50.00%**	50.00%	United Kingdom	30 November 2012	Property development
Ingelby Limited (b)	**100.00%**	50.00%	United Kingdom	30 September 2012	Property development
Salhia International Investment Limited (c)	**100.00%**	-	United Kingdom	30 November 2012	Property development
Bunyan Al-Salhia Project Management Company W.L.L.	**99.00%**	99.00%	Kuwait	31 December 2012	Project management
Al Asima Real Estate Company K.S.C	**99.75%**	99.73%	Kuwait	31 December 2012	Real estate
Held through Haddia Holding GMBH:					
SAREC GMBH	**100.00%**	100.00%	Germany	31 December 2012	Leasing of properties
DANA Lebensstil GmbH (a)	**50.00%**	50.00%	Germany	31 December 2012	Dormant company
Dana Senioreneinrichtungen GMBH (a)	**40.00%**	40.00%	Germany	31 December 2012	Care home operator
Dana Ambulante Pfegedienste GMBH (a)	**40.00%**	40.00%	Germany	31 December 2012	Care home service provider
Dana Services GMBH (Gredo GMBH) (a)	**40.00%**	40.00%	Germany	31 December 2012	Care home catering service provider
Held through Salhia International Investments Limited:					
Salhia Jersey Limited (c)	**100%**	-	United Kingdom	30 September 2012	Real estate
Salhia Investments (Birmingham) Limited (c)	**100%**	-	United Kingdom	30 September 2012	Real estate

(a) During the year ended 31 December 2012, the Group continued to consolidate Drawbridge Securities Limited, DANA Lebensstil GmbH, Dana Senioreneinrichtungen GMBH, Dana Ambulante Pfegedienste GMBH and Dana Services GMBH (Gredo GMBH) as the Group has in substance the majority of ownership risks in order to obtain benefits from their activities.

(b) During the year the Group acquired an additional interest of 50% in Ingelby Limited for no consideration. Accordingly, an amount of KD 2,032,012 has been recognized in other reserve. Furthermore, an amount of KD 1,368,412 has been transferred from foreign currency translation reserve to other reserve in equity as a result of the transaction.

(c) During the year, the Group incorporated Salhia International Investments Limited, Salhia Jersey Limited and Salhia Investments (Birmingham) Limited.

20 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associate and joint venture entities, directors and key management personnel of the group, and companies which are controlled by them or over which they have significant influence. 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:

	2012 KD	*2011 KD*
Directors fees	**120,000**	120,000

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

	Major shareholders KD	*Other related parties KD*	***Total 2012 KD***	*Total 2011 KD*
Staff receivables	204,262	516,438	**720,700**	804,005

Compensation of key management personnel

The remuneration of key management personnel of the Group during the year is as follows:

	2012 KD	*2011 KD*
Short-term benefits	**420,081**	398,095
Employees' end of service benefits	**344,942**	125,528
	765,023	523,623

21 SEGMENTAL INFORMATION

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss as explained in the table below.

Segment results include revenue and expenses directly attributable to a segment.

- Real estate operations: Consist of development and leasing of properties.
- Hotel operations: Consist of the hotel hospitality services provided through JW Marriott Hotel – Kuwait, Courtyard Marriott Hotel-Kuwait and Arraya Ball Room - Kuwait.
- Care home operations: Consist of care home activities provided by subsidiary companies.

21 SEGMENTAL INFORMATION (continued)

The following is the detail of the above segments, which constitutes the Group's operating segments:

	31 December 2012				31 December 2011			
	Real estate operations KD	**Hotel operations KD**	**Care home operations KD**	**Total KD**	*Real estate operations KD*	*Hotel operations KD*	*Care home operations KD*	*Total KD*
Segment revenue	**16,157,307**	**13,033,571**	**16,130,190**	**45,321,068**	16,071,093	12,155,402	15,627,961	43,854,456
Segment operating costs	**(2,924,913)**	**(5,032,619)**	**(11,433,365)**	**(19,390,897)**	(1,781,893)	(4,856,854)	(11,491,686)	(18,130,433)
Segment gross profit	**13,232,394**	**8,000,952**	**4,696,825**	**25,930,171**	14,289,200	7,298,548	4,136,275	25,724,023
Share in joint venture's results	**1,443,909**	**-**	**-**	**1,443,909**	1,748,062	-	-	1,748,062
Share of associate's results	**-**	**-**	**-**	**-**	(582,378)	-	-	(582,378)
Depreciation	**(3,076,304)**	**(1,945,551)**	**(1,239,248)**	**(6,261,103)**	(3,082,464)	(1,923,480)	(1,236,001)	(6,241,945)
Impairment loss on investment properties	**-**	**-**	**-**	**-**	(1,785,312)	-	-	(1,785,312)
Other operating expenses	**(2,605,219)**	**(1,122,618)**	**(1,275,103)**	**(5,002,940)**	(2,528,589)	(1,022,512)	(1,085,344)	(4,636,445)
Finance costs	**(5,299,511)**	**(93,825)**	**(1,703,010)**	**(7,096,346)**	(4,127,786)	(101,723)	(1,776,907)	(6,006,416)
Foreign tax	**(496,954)**	**-**	**(227,752)**	**(724,706)**	(532,852)	-	(215,652)	(748,504)
Segment results	**3,198,315**	**4,838,958**	**251,712**	**8,288,985**	3,397,881	4,250,833	(177,629)	7,471,085
Interest income				**153,281**				45,408
Investment income				**2,945,277**				1,542,106
Impairment loss on financial assets available for sale				**(2,989,943)**				(1,894,024)
Other non-operating income				**376,206**				428,856
KFAS, NLST, Zakat and Directors' fees				**(498,181)**				(443,928)
Profit for the year				**8,275,625**				7,149,503
Other information:								
Segment assets	**216,274,315**	**5,510,194**	**42,684,119**	**264,468,628**	224,785,859	4,852,498	40,696,584	270,334,941
Investment in joint venture	**13,312,728**	**-**	**-**	**13,312,728**	10,439,964	-	-	10,439,964
Total assets	**229,587,043**	**5,510,194**	**42,684,119**	**277,781,356**	235,225,823	4,852,498	40,696,584	280,774,905
Segment liabilities	**112,570,762**	**2,578,817**	**29,759,342**	**144,908,921**	117,938,348	2,305,726	29,795,353	150,039,427
Capital expenditure	**1,380,101**	**-**	**166,277**	**1,546,378**	1,392,079	-	366,095	1,758,174

21 SEGMENTAL INFORMATION (continued)

Geographic information

The Group operates in two geographical markets: Kuwait and GCC and Europe. The following table shows the distribution of the Group's segment revenues, assets and capital expenditure.

	31 December 2012			31 December 2011		
	Kuwait and GCC	***Europe***	***Total***	*Kuwait and GCC*	*Europe*	*Total*
	KD	***KD***	***KD***	*KD*	*KD*	*KD*
Revenue	**29,190,878**	**16,130,190**	**45,321,068**	28,226,495	15,627,961	43,854,456
Assets	**216,360,876**	**61,420,480**	**277,781,356**	223,529,263	57,245,543	280,774,905
Capital expenditure	**965,569**	**580,809**	**1,546,378**	1,298,979	459,195	1,758,174

22 RISK MANAGEMENT OBJECTIVES AND POLICIES

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's principal financial liabilities comprise non-derivatives financial instruments such as commercial financing, Islamic financing, due to banks and a financial institutions and account payables. The main purpose of these financial liabilities is to fund the Group's operations. The Group has various financial assets such as accounts receivable, cash and bank balances and short-term fixed deposits, which arise directly from its operations. The Group also holds financial assets available for sale.

The main risk arising from the Group's financial instruments are market risk, credit risk and liquidity risk.

The Parent Company's Board of Directors and Executive Committee are ultimately responsible for overall risk management including setting, reviewing and agreeing policies for managing each of these risks which are summarised below.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, foreign currency risk and equity price risk.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Group is exposed to interest rate risk with respect to its bank balances, fixed deposits, due to banks and financial institution, and commercial financing which are both at fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between floating rate and fixed rate borrowings.

Positions are monitored on a regular basis to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit for the year to a reasonable possible change of interest rate in terms of basis points with effect from the beginning of the year. The calculation is based on the Group's floating rate financial instruments held at each reporting date. All other variables are held constant.

	Increase in basis points	*Effect on profit before KFAS, NLST, Zakat and Directors' fees KD*
2012		
Kuwaiti Dinar	**25**	**(239,580)**
Euro	**25**	**(139,979)**
GBP	**25**	**(1,823)**
2011		
Kuwaiti Dinar	25	(247,572)
Euro	25	(69,898)
US Dollar	25	(1,053)
GBP	25	(1,991)

Sensitivity to interest rates movement will be on symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

22 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's net investments in foreign subsidiaries, as the Group's exposure to foreign currency monetary assets and liabilities is not significant.

The following table demonstrates the sensitivity to changes in currency rates, with all other variables held constant:

	2012			2011		
Currency	Change in currency rate in %	Effect on profit KD	Effect on other comprehensive income KD	Change in currency rate in %	Effect on profit KD	Effect on other comprehensive income KD
US Dollar	**-1%**	**(421)**	**(114,747)**	-1%	4,054	(103,137)
Euro	**-3%**	**-**	**(838,402)**	-3%	-	(791,928)
Pound Sterling	**-1%**	**-**	**(21,082)**	-1%	(5,332)	(62)

Equity price risk
Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the Parent Company through diversification of investments in terms of geographical distribution and industry concentration. The Group's quoted investments include securities listed on the Kuwait Stock Exchange and a portfolio of foreign investments (managed by foreign financial institutions) sensitive to recognised international indices.

The effect on other comprehensive income in equity (as a result of a change in the fair value of financial assets available for sale at 31 December 2012) due to a reasonably possible change in market indices, with all other variables held constant is as follows:

	2012		2011	
Market indices	Change in equity price %	Effect on other comprehensive income KD	Change in equity price %	Effect on other comprehensive income KD
Kuwait	+/-5	**186,385**	+/-5	287,385
International	+/-5	**50,707**	+/-5	95,559

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 manages credit risk by setting limits for individual counter-parties, and groups of counter-parties. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties.

The Group's maximum exposure to credit risk is limited to the carrying amounts of financial assets recognised at the reporting date, as summarised below:

	2012 KD	2011 KD
Cash and bank balances	**7,397,712**	4,255,114
Short-term deposits	**-**	262,397
Fixed deposits	**3,464,317**	3,275,925
Accounts receivable (Note 6)	**1,863,952**	1,535,526
Total exposure of credit risk	**12,725,981**	9,328,962

22 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)
The credit risk exposure for bank balances and fixed deposits is not considered to be significant because the counterparties are reputable, financially sound financial institutions.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure to a single counter party is KD 769,320 (2011: KD 593,599). There are no significant concentrations of credit risk within the Group.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Liquidity risk
Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. The Group objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, commercial and Islamic financing.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 and 31 December 2011 based on contractual undiscounted payments:

Year ended 31 December 2012	***Within 3 months KD***	***3 to 6 months KD***	***6 to 12 months KD***	***Over one year KD***	***Total KD***
Due to banks and financial institution	**2,296,392**	-	-	-	**2,296,392**
Accounts payable and accruals	**3,799,532**	**2,624,195**	**1,891,299**	**8,591,963**	**16,906,989**
Commercial financing	**646,743**	**646,743**	**1,293,486**	**39,952,872**	**42,539,844**
Islamic financing	**2,408,082**	**2,153,946**	**10,518,964**	**105,548,589**	**120,629,581**
TOTAL LIABILITIES	**9,150,749**	**5,424,884**	**13,703,749**	**154,093,424**	**182,372,806**

Year ended 31 December 2011	*Within 3 months KD*	*3 to 6 months KD*	*6 to 12 months KD*	*Over one year KD*	*Total KD*
Due to banks and financial institution	14,609,561	-	-	-	14,609,561
Accounts payable and accruals	4,510,838	1,823,365	1,423,234	7,261,840	15,019,277
Commercial financing	1,553,854	1,544,505	7,064,064	47,286,648	57,449,071
Islamic financing	1,981,226	1,967,981	8,915,692	91,599,606	104,464,505
TOTAL LIABILITIES	22,655,479	5,335,851	17,402,990	146,148,094	191,542,414

22 RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

Financial liabilities 2012	*3 to 12 months KD*	*1 to 5 years KD*	*Total KD*
Contingent liabilities	**16,761,566**	**-**	**16,761,566**
Commitments	**3,412,500**	**11,389,571**	**14,802,071**
Total	**20,174,066**	**11,389,571**	**31,563,637**
2011			
Contingent liabilities	16,714,667	-	16,714,667
Commitments	7,388,449	8,903,512	16,291,961
Total	24,103,116	8,903,512	33,006,628

23 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the Group's assets and liabilities. The maturity profile of cash and cash equivalents, fixed deposits, accounts receivable and other assets, accounts payable and other liabilities, interest bearing loans and borrowings at the year end is based on contractual repayment arrangements. The maturity profile for the remaining assets is determined based on the management estimate of liquidation of those financial assets. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of assets and liabilities was as follows:

Year ended 31 December 2012 ASSETS	*Within 3 months KD*	*3 to 6 months KD*	*6 to 12 months KD*	*Over one year KD*	*Total KD*
Cash and cash equivalents	7,397,712	-	-	-	7,397,712
Fixed deposits	-	3,464,317	-	-	3,464,317
Inventories	369,842	-	-	-	369,842
Accounts receivables and other assets	2,463,077	1,777,862	183,776	599,633	5,024,348
Financial assets available for sale	-	-	3,488,792	13,519,977	17,008,769
Investment in joint venture	-	-	-	13,312,728	13,312,728
Investment properties	-	-	-	143,705,580	143,705,580
Property and equipment	-	-	-	87,498,060	87,498,060
TOTAL ASSETS	**10,230,631**	**5,242,179**	**3,672,568**	**258,635,978**	**277,781,356**

23 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

LIABILITIES

Due to banks and a financial institution	2,296,392	-	-	-	2,296,392
Accounts payable and other liabilities	3,799,531	2,624,195	1,891,299	8,591,964	16,906,989
Commercial financing	283,348	283,348	566,696	27,572,148	28,705,540
Islamic financing	1,437,500	1,187,500	8,600,000	85,775,000	97,000,000
TOTAL LIABILITIES	**7,816,771**	**4,095,043**	**11,057,995**	**121,939,112**	**144,908,921**

Year ended 31 December 2011 ASSETS	*Within 3 months* KD	*3 to 6 months* KD	*6 to 12 months* KD	*Over one year* KD	*Total* KD
Cash and cash equivalents	4,517,511	-	-	-	4,517,511
Fixed deposits	-	3,275,925	-	-	3,275,925
Inventories	334,955	-	-	-	334,955
Accounts receivables and other assets	2,254,818	1,721,570	272,913	505,183	4,754,484
Financial assets available for sale	-	-	4,843,307	18,132,256	22,975,563
Investment in joint venture	-	-	-	10,439,964	10,439,964
Investment properties	-	-	-	143,038,397	143,038,397
Property and equipment	-	-	-	91,438,106	91,438,106
TOTAL ASSETS	7,107,284	4,997,495	5,116,220	263,553,906	280,774,905
LIABILITIES					
Due to banks and a financial institution	14,609,561	-	-	-	14,609,561
Accounts payable and other liabilities	4,510,838	1,823,365	1,423,234	7,261,840	15,019,277
Commercial financing	1,011,256	1,011,256	6,022,513	33,115,564	41,160,589
Islamic financing	1,062,500	1,062,500	7,125,000	70,000,000	79,250,000
TOTAL LIABILITIES	21,194,155	3,897,121	14,570,747	110,377,404	150,039,427

24 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 maximize 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 review the dividend payment to shareholders, return capital to shareholders or issue new shares.

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, due to banks and a financial institution, accounts payable and other liabilities, and commercial and Islamic financing, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Parent Company less fair value reserve.

	2012	*2011*
	KD	*KD*
Due to banks and a financial institution	**2,296,392**	14,609,561
Accounts payable and other liabilities	**16,906,989**	15,019,277
Term financing	**125,705,540**	120,410,589
Less: Cash and cash equivalents	**(7,397,712)**	(4,517,511)
Net debt	**137,511,209**	145,521,916
Equity attributable to the equity holders of the Parent Company	**130,184,377**	130,122,054
Less: Fair value reserve	**(1,840,520)**	(836,753)
Total capital	**132,024,897**	130,958,807
Capital and net debt	**269,536,106**	276,480,722
Gearing ratio	**51%**	53%

25 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

At the reporting date, the Group had the following contingencies and capital commitments:

	2012	*2011*
	KD	*KD*
Letters of guarantee	**16,761,566**	16,714,667
Construction projects	**14,802,071**	16,291,961
	31,563,637	33,006,628