شركة الاستشارات المالية الدولية

INTERNATIONAL FINANCIAL ADVISORS

# ANNUAL REPORT 2013

MAINTAINING VALUES
AND CREATING VALUE

شركة الاستشارات المالية الدولية

INTERNATIONAL FINANCIAL ADVISORS

H.H. Shiekh
**Nawaf Al Ahmad Al Jaber Al Sabah**
The Crown Prince of the State of Kuwait

H.H. Shiekh
**Sabah Al Ahmad Al Jaber Al Sabah**
The Amir of the State of Kuwait

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# MEMBERS OF THE BOARD

**Saleh Saleh Al-Selmi**
Chairman & CEO

**Talal Jassim Al-Bahar**
Vice Chairman

**Wafa Ahmed Al-Qatami**
Board Member

**Nedal Khaled Al Maso'd**
Board Member

**Abdulwahab Ahmad Al-Nakib**
Board Member

# REPORT TO THE SHAREHOLDERS

Dear Shareholders,

## Overview

As predicted, the Kuwait Stock Exchange performed well in 2013. The price index rose by 28%, the weighted index rose by 8% and the Kuwait 15 rose by 5%. In comparison with its peers in the GCC region, the KSE weighted index shows that local shares performed weakly in 2013 for the following reasons: the estrangement of family owned businesses for listing on the KSE; the limiting of private businesses in the real estate and share sectors; and finally, the absences of foreign investors.

With our sights set on overcoming these challenges, we look forward to developing new financial instruments and specialized funds that would boost trading in the long term, improve investor awareness and help to develop new regulations designed to attract foreign investors.

## Financial Performance

In 2013, International Financial Advisors achieved a profit of KD2.92 million (Fils4.36 per share), compared to losses of KD24.9 million (Fils 37.16 per share) in 2012. The company's total revenues increased to KD51 million compared to KD8.5 million in 2012.

## Company Performance

In 2013, International Financial Advisors reduced its loans with local banks by 18%, from KD92million to KD75million. The Company also exited stocks and other assets to secure cash flows, diversify the company's investments and capitalize on new investment opportunities.

IFA also increased its stake in its subsidiary IFA Hotels & Resorts by KD10million. Although its participation in the company's capital increased, IFA maintains the same ownership percentage.

## Advisory Services

The company continued to provide Advisory Services to clients and successfully advised in arranging loans and financial facilities as well as rescheduling loans to third parties.

## MIAX Options Exchange-USA

As announced in 2012, the IFA group of companies and other Kuwaiti and international investors announced the incorporation of Miami International Holding (MIH) in the USA. Its subsidiary received an Approval Order from the United States Securities and Exchange Commission for its application for Registration as a National Securities Exchange under the name MIAX Options Exchange.

In 2013, MIAX completed its equity rights transaction whereby six leading order flow providers and market making MIAX Exchange Member firms entered into strategic agreements. The agreements provided these members with the right to invest in the Exchange's parent holding company, MIH, in exchange for payment of an initial purchase price or the prepayment of certain transaction fees and the achievement of certain liquidity addition volume thresholds on the Exchange. The MIAX Exchange Member firms involved in the transaction are: Bank of America-Merrill Lynch, Interactive Brokers Group, KCG Holdings, Inc., Morgan Stanley, Susquehanna International Group and Wolverine.

## IFA Hotels & Resorts

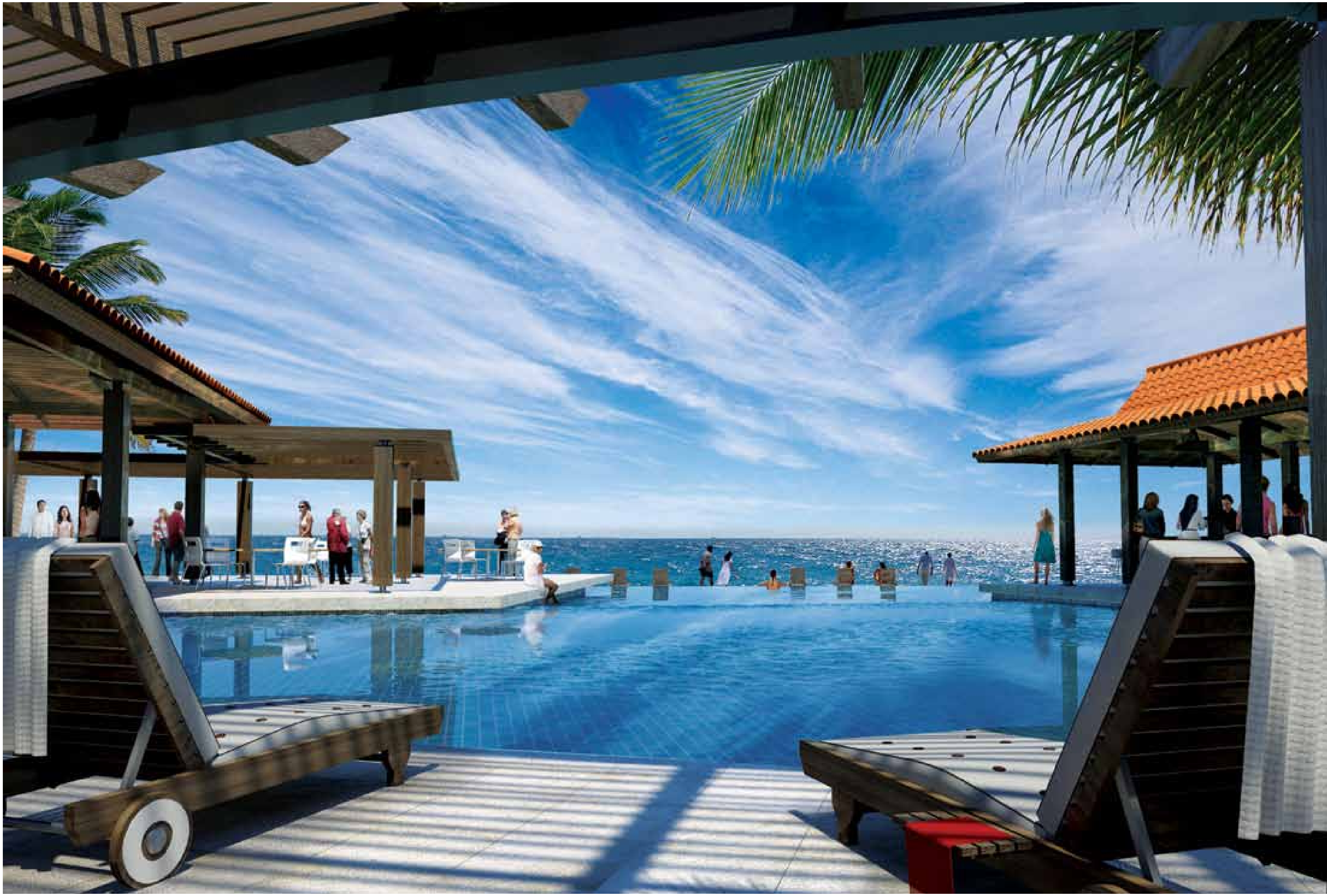
During the course of 2013, IFA Hotel Investments, IFA HR's asset management arm, solidified a deal to build a city-centre YOTEL on Singapore's famous Orchard Road. IFA HI has also entered into an agreement with Capitas Group International to help facilitate the entry of YOTEL in Saudi Arabia.

In October, IFA Hotels & Resorts welcomed Mövenpick Hotel Jumeirah Lakes Towers into its operational folds and since opening its doors, the hotel has exceeded the expectations in every way. It continues to outperform its competitive set in occupancy. The residential component of this mixed-use building – Laguna Tower –was also successfully handed over in early 2013.

Also in 2013, IFA HR laid the foundation for two new business lines: first, a franchising agreement with North America's largest real estate agency – Keller Williams; and, second, the development of a global Vacation Club Venture.

In South Africa, IFA HR's initial franchise agreement with real estate agency Keller Williams was formed last year and has been incredibly successful. In the first-ever IFA HR-Keller Williams event, Zimbali Suites product was sold out just a few hours after launching. The partnership has been so mutually beneficial that IFA HR will be bringing the franchise to Dubai in 2014 with an eye on expanding across the Middle East.

# Zimbali Suites, Zimbali, South Africa



## Future Plans

Reducing the company's loans will be our main focus in 2014. We will also continue to expand our advisory services, diversify our investment portfolio by exiting non-core investments and partake in new strategic investments. It is worth mentioning that the company is currently studying the feasibility of entering the industrial investment sector and into developing a water processing and bottling plant.

Finally, I would like to thank our shareholders for their continued support and our employees for their efforts for implementing the company's strategies last year and in the busy year ahead.

**Saleh Saleh Al-Selmi**
Chairman & CEO

# Mövenpick Hotel Jumeirah Lakes Towers, Dubai, UAE

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Grant Thornton
Al-Qatami, Al-Aiban & Partners

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## Independent auditors' report

To the shareholders of
International Financial Advisors – KPSC
Kuwait

## Report on the Consolidated Financial Statements

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

*Management's Responsibility for the Consolidated Financial Statements*
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards applied in Kuwait 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

GrantThornton
Al-Qatami, Al-Aiban & Partners

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*Opinion*

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

*Emphasis of matter*

Without qualifying our opinion, we draw attention to note (26) of the consolidated financial statement as the group has recorded the investment property valuation unrealised gains resulted from one of its subsidiaries valuated on 31 December 2012 with total amount KD19,932,188 and recorded in the consolidated statement of income of this year.

## Report on Other Legal and Regulatory Matters

In our opinion, proper books of account have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012 and the Company's articles and memorandum of association, as amended, 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 Company's articles and memorandum of association, as amended, have occurred during the year that might have had a material effect on the business or financial position of the Company.

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

We further report that, during the course of our audit, we have not become aware of any material violations, during the year, of the provisions of Law No.32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations.

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

Ali A. Al-Hasawi
(Licence No. 30-A)
of Rödl Middle East
Burgan – International Accountants

Kuwait
3 April 2014.

## Consolidated statement of income

| | Notes | Year ended 31 Dec. 2013 | (Restated) Year ended 31 Dec. 2012 |
|---|---|---|---|
| | | KD | KD |
| **Income** | | | |
| Interest and similar income | 8 | **539,491** | 590,047 |
| Management fees and commission income | 9 | **765,601** | 805,600 |
| Advisory services income | 22(b) | **1,301,682** | - |
| Dividends income | 10 | **129,990** | 805,271 |
| Net income from hoteliers and related services | 11 | **8,369,444** | 3,702,007 |
| Net (loss)/ gain on investments | 12 | **(1,682,561)** | 2,111,318 |
| Gain on sale of asset classified as held for sale | 24 | **11,301,639** | 2,038,160 |
| Net gain from investment properties | 13 | **38,778,043** | 582,285 |
| Gain on sale of properties under development | 14 | **(1,864,019)** | 173,098 |
| Share of loss from associates and joint ventures | 27.7 | **(4,450,124)** | (1,232,609) |
| Loss on sale of shares in associate | 27.1 (a) | **(78,306)** | (3,296,348) |
| Other income | 15 | **(2,109,721)** | 2,298,235 |
| | | **51,001,159** | 8,577,064 |
| **Expenses and other charges** | | | |
| Interest and similar expenses | 16 | **11,697,068** | 8,412,522 |
| Staff and related costs | | **6,756,858** | 4,565,331 |
| Other operating expenses | | **12,075,014** | 7,127,050 |
| Impairment loss in value of investment in an associate | 27.1 (a) | **-** | 5,000,000 |
| Impairment loss in value of the shareholders' loan granted to an associate and joint ventures | 27.1 (b) | **4,757,699** | - |
| Impairment loss in value of available for sale investments | 25 | **768,850** | 1,411,190 |
| Write back provision for amounts due from related parties | 22 (a) | **(5,843,057)** | |
| Write off of due from related parties balances | 22 (c) | **4,830,999** | 1,586,605 |
| Impairment loss in time share | 20 | **500,000** | - |
| Impairment loss in value of properties under development | 29.4 | **-** | 1,036,575 |
| Impairment loss in value of property, plant and equipment | 31 (b) | **-** | 3,202,371 |
| Depreciation of property, plant and equipment | 31 | **3,480,591** | 1,490,599 |
| | | **39,024,022** | 33,832,243 |

## Consolidated statement of income

| | Notes | Year ended 31 Dec. 2013 | (Restated) Year ended 31 Dec. 2012 |
|---|---|---|---|
| | | **KD** | KD |
| **Profit /(loss) before contribution to KFAS, Zakat provision, NLST and taxation on overseas subsidiaries** | | **11,977,137** | (25,255,179) |
| Contribution to KFAS | | **(84,583)** | - |
| Zakat provision | | **(93,981)** | - |
| National Labour Support Tax (NLST) | | **(234,952)** | - |
| Taxation on overseas subsidiaries | | **(1,477,494)** | 865,007 |
| **Profit/(loss) for the year** | | **10,086,127** | (24,390,172) |
| | | | |
| **Attributable to:** | | | |
| Owners of the parent company | | **2,926,182** | (24,895,259) |
| Non-controlling interests | | **7,159,945** | 505,087 |
| **Profit /(loss) for the year** | | **10,086,127** | (24,390,172) |
| | | | |
| **BASIC AND DILUTED EARNINGS /(LOSS )PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE PARENT COMPANY** | 17 | **4.36 Fils** | (37.16) Fils |

The notes set out on pages 26 to 89 form an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income

| | Year ended 31 Dec. 2013 | Year ended 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| **Profit/(loss) for the year** | **10,086,127** | (24,390,172) |
| **Other comprehensive income:** | | |
| Items that will be reclassified subsequently to the statement of income: | | |
| Available for sale investments: | | |
| - Net change in fair value during the year | **(1,306,019)** | 5,215,866 |
| - Transferred to consolidated statement of income on sale | **(1,990,120)** | 877,208 |
| - Transferred to consolidated statement of income on impairment in value | **692,334** | 1,411,190 |
| Investment in associates: | | |
| - Share of other comprehensive income from associates | **3,308,087** | 315,393 |
| Foreign currency translation | | |
| - Exchange differences on translation of foreign operations | **(1,382,990)** | (181,523) |
| Net other comprehensive (loss)/income to be reclassified subsequently to consolidated statement of income | **(678,708)** | 7,638,134 |
| Net other comprehensive income not to be reclassified subsequently to consolidated statement of income | **-** | - |
| **Total comprehensive profit/(loss) for the year** | **9,407,419** | (16,752,038) |
| Attributable to: | | |
| Owners of the parent company | **2,247,474** | (17,257,125) |
| Non-controlling interests | **7,159,945** | 505,087 |
| | **9,407,419** | (16,752,038) |

The notes set out on pages 26 to 89 form an integral part of these consolidated financial statements.

## Consolidated statement of financial position

| | Notes | 31 Dec. 2013 | (Restated) 31 Dec. 2012 |
|---|---|---|---|
| | | **KD** | KD |
| **Assets** | | | |
| Cash and cash equivalents | 18 | **5,704,539** | 14,014,983 |
| Investments at fair value through profit or loss | 19 | **3,562,854** | 5,999,369 |
| Receivables and other debit balances | 20 | **18,499,996** | 16,197,848 |
| Loans receivable | 21 | **1,092,800** | 3,395,109 |
| Due from related parties | 22 | **12,878,614** | 2,938,391 |
| Trading properties | 23 | **4,212,858** | 5,466,261 |
| Asset classified as held for sale | 24 | **-** | 8,015,422 |
| Available for sale investments | 25 | **34,064,743** | 45,250,188 |
| Investment properties | 26 | **58,361,664** | 30,463,337 |
| Investment in associates and joint ventures | 27 | **51,661,172** | 57,657,356 |
| Goodwill | 28 | **48,665,305** | 48,678,399 |
| Properties under development | 29 | **152,715,382** | 149,299,941 |
| Capital work in progress | 30 | **335,065** | 100,098,408 |
| Property, plant and equipment | 31 | **124,544,941** | 33,668,004 |
| **Total assets** | | **516,299,933** | 521,143,016 |
| Liabilities and equity | | | |
| Liabilities | | | |
| Payables and other credit balances | 32 | **76,810,372** | 66,847,476 |
| Due to related parties | 22 | **23,369,522** | 18,081,442 |
| Term loan from a related party | 33 | **-** | 9,943,636 |
| Borrowings | 34 | **165,261,762** | 187,153,653 |
| Advances received from customers | 35 | **123,996,415** | 136,198,130 |
| **Total liabilities** | | **389,438,071** | 418,224,337 |
| Equity | | | |
| Equity attributable to the owners of the parent company | | | |
| Share capital | 36 | **72,000,000** | 72,000,000 |
| Share premium | 36 | **11,973,061** | 11,973,061 |
| Treasury shares | 36 | **(32,869,551)** | (32,869,551) |
| Statutory and voluntary reserves | 37 | **61,426,066** | 61,408,598 |
| Cumulative changes in fair value | 25 | **12,618,088** | 11,913,806 |
| Foreign currency translation reserve | | **(6,061,895)** | (4,678,905) |
| Accumulated losses | | **(30,132,882)** | (33,084,165) |
| **Total equity attributable to the owners of the parent company** | | **88,952,887** | 86,662,844 |
| **Non-controlling interests** | | **37,908,975** | 16,255,835 |
| **Total equity** | | **126,861,862** | 102,918,679 |
| **Total liabilities and equity** | | **516,299,933** | 521,143,016 |
| **Fiduciary accounts** | 38 | **77,343,907** | 81,929,620 |

| **Saleh Saleh Al-Selmi** | **Talal Jassim Al-Bahar** |
|---|---|
| Chairman & CEO | Vice Chairman |

The notes set out on pages 26 to 89 form an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

| | Equity attributable to the owners of the parent company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital KD | Share premium KD | Treasury shares KD | Statutory and voluntary reserves KD | Cumulative changes in fair value KD | Foreign currency translation reserve KD | Accumulated losses KD | Sub – total KD | Non-controlling interests KD | Total KD |
| **Balance as at 1 January 2013** | 72,000,000 | 11,973,061 | (32,869,551) | 61,408,598 | 11,913,806 | (4,678,905) | (33,084,165) | 86,662,844 | 16,255,835 | 102,918,679 |
| Profit for the year | - | - | - | - | - | - | 2,926,182 | 2,926,182 | 7,159,945 | 10,086,127 |
| Other comprehensive income / (loss) | - | - | - | - | 704,282 | (1,382,990) | - | (678,708) | - | (678,708) |
| Total comprehensive profit / (loss) for the year | - | - | - | - | 704,282 | (1,382,990) | 2,926,182 | 2,247,474 | 7,159,945 | 9,407,419 |
| Purchase of treasury shares | - | - | (86,462) | - | - | - | - | (86,462) | - | (86,462) |
| Sale of treasury shares | - | - | 86,462 | - | - | - | - | 86,462 | - | 86,462 |
| Profit on sale of treasury shares | - | - | - | 17,468 | - | - | - | 17,468 | - | 17,468 |
| Profit arising on partial disposal of subsidiary shares | - | - | - | - | - | - | 25,101 | 25,101 | - | 25,101 |
| Net change in non-controlling interests | - | - | - | - | - | - | - | - | 14,493,195 | 14,493,195 |
| **Balance as at 31 December 2013** | **72,000,000** | **11,973,061** | **(32,869,551)** | **61,426,066** | **12,618,088** | **(6,061,895)** | **(30,132,882)** | **88,952,887** | **37,908,975** | **126,861,862** |

## Consolidated statement of changes in equity (continued)

| | Equity attributable to the owners of the parent company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital KD | Share premium KD | Treasury shares KD | Statutory and voluntary reserves KD | Cumulative changes in fair value KD | Foreign currency translation reserve KD | Accumulated losses KD | Sub – total KD | Non-controlling interests KD | Total KD |
| **Balance as at 1 January 2012** | 72,000,000 | 11,973,061 | (32,896,967) | 61,649,505 | 4,094,149 | (4,497,382) | (6,721,619) | 105,600,747 | 16,452,078 | 122,052,825 |
| (Loss) / profit for the year | - | - | - | - | - | - | (24,895,259) | (24,895,259) | 505,087 | (24,390,172) |
| Other comprehensive income / (loss) | - | - | - | - | 7,819,657 | (181,523) | - | 7,638,134 | - | 7,638,134 |
| Total comprehensive profit / (loss) for the year | - | - | - | - | 7,819,657 | (181,523) | (24,895,259) | (17,257,125) | 505,087 | (16,752,038) |
| Purchase of treasury shares | - | - | (8,888,631) | - | - | - | - | (8,888,631) | - | (8,888,631) |
| Sale of treasury shares | - | - | 8,916,047 | - | - | - | - | 8,916,047 | - | 8,916,047 |
| Loss on sale of treasury shares | - | - | - | (240,907) | - | - | - | (240,907) | - | (240,907) |
| Loss arising on partial disposal of subsidiary shares | - | - | - | - | - | - | (1,467,287) | (1,467,287) | - | (1,467,287) |
| Net change in non-controlling interests | - | - | - | - | - | - | - | - | (701,330) | (701,330) |
| **Balance as at 31 December 2012** | 72,000,000 | 11,973,061 | (32,869,551) | 61,408,598 | 11,913,806 | (4,678,905) | (33,084,165) | 86,662,844 | 16,255,835 | 102,918,679 |

The notes set out on pages 26 to 89 form an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

| | Year ended 31 Dec. 2013 KD | (Restated) Year ended 31 Dec. 2012 KD |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit/(loss) for the year attributable to owners of the parent company | **2,926,182** | (24,895,259) |
| Adjustments: | | |
| Net gain on investment properties | **(38,778,043)** | (582,285) |
| Gain on sale of available for sale investments | **(145,957)** | (380,062) |
| Impairment loss in value of available for sale investments | **768,850** | 1,411,190 |
| Impairment loss in value of investment in an associate | **-** | 5,000,000 |
| Impairment loss in value of the shareholders' loan granted to an associate | **4,757,699** | - |
| Write off of due from related parties balances | **4,830,999** | 1,586,605 |
| Write back provision for amounts due from related parties | **(5,843,057)** | - |
| Impairment loss in value of properties under development | **-** | 1,036,575 |
| Impairment loss in value of property, plant and equipment | **-** | 3,202,371 |
| Impairment loss in time share | **500,000** | - |
| Loss on sale of shares in associate | **78,306** | 3,296,348 |
| Loss/(gain) on sale of properties under development | **1,864,019** | (173,098) |
| Gain on sale of asset classified as held for sale | **(11,301,639)** | (2,038,160) |
| Dividends income | **(129,990)** | (805,271) |
| Interest and similar income | **(539,491)** | (590,047) |
| Interest and similar expenses | **11,697,068** | 8,412,522 |
| Provisions | **1,830,414** | 86,115 |
| Depreciation of property, plant and equipment | **3,480,591** | 1,490,599 |
| Share of loss from associates and joint ventures | **4,450,124** | 1,232,609 |
| Loss from foreign currency translation of non-operating assets and liabilities | **381,180** | 476,850 |
| | **(19,172,745)** | (2,232,398) |
| **Changes in operating assets and liabilities:** | | |
| Investments at fair value through profit or loss | **2,436,515** | 13,429,371 |
| Receivables and other debit balances | **(1,793,614)** | 674,369 |
| Loans receivable | **2,027,895** | 1,101,442 |
| Due from related parties | **(8,640,051)** | (2,015,183) |
| Trading properties | **1,253,403** | 217,497 |
| Payables and other credit balances | **8,406,896** | (10,161,858) |
| Due to related parties | **5,288,080** | 21,546,403 |
| Advances received from customers | **(12,201,715)** | 8,309,346 |
| Cash (used in)/from operating activities | **(22,395,336)** | 30,868,989 |
| Dividends income received | **129,990** | 805,271 |
| Interest and similar income received | **539,491** | 590,047 |
| Interest and similar expenses paid | **(11,697,068)** | (8,412,522) |
| **Net cash (used in)/from operating activities** | **(33,422,923)** | 23,851,785 |

## Consolidated statement of cash flows (continued)

| | Note | Year ended 31 Dec. 2013 KD | (Restated) Year ended 31 Dec. 2012 KD |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Proceeds from sale of shares in a consolidated subsidiary | | **762,781** | 522,590 |
| Proceeds from sale of shares in associate | | **59,134** | 5,517,682 |
| Proceeds from sale of asset classified as held for sale | | **19,333,077** | 6,149,321 |
| Net movement on investment in associates and joint ventures | | **(3,349,079)** | (2,442,660) |
| Net movement on properties under development | | **15,456,145** | (4,108,415) |
| Additions to capital work in progress | | **(9,767,358)** | (17,210,973) |
| Net movement on property, plant and equipment | | **6,081,043** | (200,131) |
| Proceeds from sale of available for sale investments | | **5,127,329** | 5,457,041 |
| Net movement on investment properties | | **(763,759)** | 2,352,450 |
| Purchase of available for sale investments | | **(1,157,143)** | (1,992,395) |
| **Net cash from/(used in) investing activities** | | **31,782,170** | (5,955,490) |
| **FINANCING ACTIVITIES** | | | |
| Bank loans obtained | | **63,554,426** | 16,144,586 |
| Bank loans settled | | **(78,018,089)** | (22,198,855) |
| Related party loan settled | | **(9,943,636)** | (1,720,000) |
| Change in non-controlling interests | | **20,915,460** | (2,186,121) |
| Purchase of treasury shares | | **(86,462)** | (8,888,631) |
| Proceeds from sale of treasury shares | | **103,931** | 8,675,140 |
| Net movement in foreign currency translation reserve | | **(3,195,321)** | (679,910) |
| **Net cash used in financing activities** | | **(6,669,691)** | (10,853,791) |
| Net (decrease)/increase in cash and cash equivalents | | **(8,310,444)** | 7,042,504 |
| Cash and cash equivalents at beginning of the year | 18 | **14,014,983** | 6,972,479 |
| **Cash and cash equivalents at end of the year** | 18 | **5,704,539** | 14,014,983 |

The notes set out on pages 26 to 89 form an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

31 December 2013

### 1. Parent company incorporation and activities

International Financial Advisors – KPSC ("the parent company") is a Kuwaiti Public Shareholding Company incorporated on 31 January 1974 under the Commercial Companies Law No. 15 of 1960 and amendments thereto. The parent company is regulated by the Central Bank of Kuwait as an investment company.

The parent company is principally engaged in providing financial advisory services, trading in local and international securities, borrowing, lending, issuing guarantees, managing investment funds and portfolios management and trading in future contracts.

The Companies Law issued on 26 November 2012 by Decree Law no 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Law No. 97 of 2013. On 29 September 2013, Ministry of Commerce and Industry issued its regulation No. 425/2013 regarding the Executive by-laws of the Companies Law. All existing companies are required to comply with articles of these by-laws within one year from the date of its issuance.

The address of the parent company's registered office is PO Box 4694, Safat 13047, State of Kuwait.

The board of directors of the parent company approved these consolidated financial statements for issuance on 3 April 2014. The general assembly of the parent company's shareholders has the power to amend these consolidated financial statements after issuance.

### 2. Basis of preparation

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

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

### 3. Statement of compliance

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990, as modified by the State of Kuwait for financial services institutions regulated by Central Bank of Kuwait.

The consolidated financial statements for the year ended 31 December 2013 and 2012 have been prepared in accordance with the executive regulations in the State of Kuwait on the financial services institutions regulated by the Central Bank of Kuwait. These regulations require adoption of all International Financial Reporting Standards, except for the requirements of IAS 39 on the collective provision for impairment which have been replaced by the requirements of the Central Bank of Kuwait on the minimum limit of the general provision.

The provision for impairment of the loans and advances complies, in all material aspects, with the requirements of the Central Bank of Kuwait and International Financial Reporting Standards on the specified provision. In this regard, the Central Bank of Kuwait requires calculation of general provisions by 1% for monetary facilities and 0.5% for non-monetary facilities for which no specified provision has been calculated.

## 4. Changes in accounting policies

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

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

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 Consolidated Financial Statements, IFRS 13 Fair Value Measurement and amendments to IAS 1 Presentation of Financial Statements. In addition, the application of IFRS 12 Disclosure of Interest in Other Entities has resulted in additional disclosures in the annual consolidated financial statements.
Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the group or the interim consolidated financial statements of the group.

The nature and the impact of each new standard/amendment are described below:

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

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

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

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

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

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

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

## 4. Changes in accounting policies (continued)

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

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

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

***4.1.4 IFRS 12 Disclosure of Interests in Other Entities***

IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. IFRS 12 disclosures are provided in note (7) and note (27).

***4.1.5 IFRS 13 Fair Value Measurement***

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

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

The group has applied IFRS 13 for the first time in the current year, see note (44).

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

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

The adoption of this amendment did not have any significant impact on the financial position or performance of the group.

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

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

## 4. Changes in accounting policies (continued)

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

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

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

- Clarifies that the appropriate date for the opening statement of financial position ("third balance sheet") is the beginning of the preceding period (related notes are no longer required to be presented)
- Addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

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

- Clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
- Requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.

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

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

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

### 4.2 IASB Standards issued but not yet effective

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

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

| *Standard* | *Effective for annual periods beginning* |
|---|---|
| IAS 32 Financial Instruments: Presentation – amendments | 1 January 2014 |
| IAS 36 Impairment of Assets- Amendments | 1 January 2014 |
| IAS 39 Financial Instruments: Recognition and Measurement | 1 January 2014 |
| IFRS 9 Financial Instruments | 1 January 2015 |
| IFRIC 21 Levies | 1 January 2014 |

## 4. Changes in accounting policies (continued)

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

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

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

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

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

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

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

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

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

#### *4.2.4 IFRS 9 Financial Instruments*

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

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

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

#### *4.2.5 IFRIC 21 Levies*

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The Interpretation clarifies that 'economic compulsion' and the going concern principle do not create or imply that an obligating event has occurred.

## 4. Changes in accounting policies (continued)

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

#### *4.2.5 IFRIC 21 Levies (continued)*

IFRIC 21 provides the following guidance on recognition of a liability to pay levies, a) the liability is recognised progressively if the obligating event occurs over a period of time, and b) if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached. The Group is not currently subjected to any significant levies so this amendment is not expected to have a significant impact on the Group's financial statements. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014.

## 5. Summary of significant accounting policies

The significant accounting policies and measurements bases adopted in the preparation of the consolidated financial statements are summarised below:

### 5.1. Basis of consolidation

The group financial statements consolidate those of the parent company and all of its subsidiaries. Subsidiaries are all entitities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group and they are deconsolidated from the date that control ceases. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the parent company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the parent pompany's financial statements. The details of the significant subsidiaries are set out in Note (7) to the consolidated financial statements.

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.
Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the date the group gains control, or until the date the group ceases to control the subsidiary, as applicable.

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

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interests
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group has directly disposed of the related assets or liabilities.

## 5. Summary of significant accounting policies (continued)

### 5.2. Business combinations

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

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

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

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

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 asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensives income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within other comprehensive income.

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

### 5.3. Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note (28) for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses.

### 5.4. Investment in associates

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

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

## 5. Summary of significant accounting policies (continued)

### 5.4 Investment in associates (continued)

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

The share of results of an associate is shown on the face of the consolidate statements of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount under a separate heading in the consolidated statement of profit or loss.

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

### 5.5 Segment reporting

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

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

### 5.6 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when payment is made.
Revenue arises from rendering of services and is measured by reference to the fair value of consideration received or receivable.
The group applies the revenue recognition criteria set out below to each separately indentifiable component of revenue.

#### *5.6.1 Rendering of services*

The group earns fees and commission income from diverse range of asset management, investment banking, custody and brokerage services provided to its customers. Fee income can be divided into the following two categories:

## 5. Summary of significant accounting policies (continued)

**5.6 Revenue (continued)**

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

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

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

*Fee income from providing transaction services*

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

***5.6.2 Interest income***

Interest income is reported on an accrual basis using the effective interest method.

***5.6.3 Dividend income***

Dividend income are recognised at the time the right to receive payment is established.

***5.6.4 Rental income***

Rental income arising from investment properties is accounted for on a straight line basis over the lease term.

***5.7 Operating expenses***

Operating expenses are recognised in consolidated statement of income upon utilisation of the service or at the date of their origin.

***5.8 Borrowing costs***

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

**5.9 Taxation**

***5.9.1 Kuwait Foundation for the Advancement of Sciences (KFAS)***

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

***5.9.2 National Labour Support Tax (NLST)***

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

## 5. Summary of significant accounting policies (continued)

### 5.9 Taxation (continued)

#### *5.9.3 Zakat*

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

#### *5.9.4 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.

### 5.10 Property, plant and equipment

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees for qualifying assets, and the borrowing costs incurred in accordance with the Group's accounting policies. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of assets, other than freehold land and properties under development over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Freehold land is not depreciated.

Building on leasehold land is depreciated over the term of lease.

Plant and Equipments, Furniture and Fixtures, Motor Vehicles and Yachts are stated at cost less accumulated depreciation and accumulated impairment losses.

The Aircraft is depreciated over a 15 years period after deducting the recoverable value estimated by professional aircraft valuers to be 85% of original value after that period.

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

| | |
|---|---|
| Freehold buildings | 50 years |
| Building on leasehold land | over the term of lease |
| Plant and equipment | 5 – 7 years |
| Furniture and fixtures | 5 – 10 years |
| Motor vehicles | 4 -5 years |
| Yacht | 10 years |
| Aircraft | 15 years |

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated statement of income.

## 5. Summary of significant accounting policies (continued)

### 5.11 Investment properties

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

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

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

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

### 5.12 Property under development

Property under development represents properties under development/construction for trade, which are stated at cost or net realisable value whichever is lower. Cost includes the cost of land, construction, design and architecture. Advances paid for purchase of properties and other related expenditures such as professional fees, project management fees and engineering costs attributable to the project are added as and when activities that are necessary to get the assets ready for the intended use are carried out. Direct costs from the start of the project up to completion of the project are accrued to properties under development. Completion is defined as the earlier of the issuance of the certificate for completion, or when management considers the project to be completed. Upon completion, unsold properties, if any are transferred to trading properties.

### 5.13 Capital work-in-progress

Capital work-in-progress includes land which is stated at cost less impairment in value, if any. The carrying value of land is reviewed according to circumstances to make sure that there is no impairment loss in value or that the carrying value may not be recoverable. If any such indication exists and when the carrying value is declined, the value of land is written down to its recoverable amount.

Capital work-in-progress also includes the cost of construction, design and architecture, advances paid for purchase of properties and other related expenditures such as professional fees, project management fees and engineering costs attributable to the project, which are capitalized as and when activities that are necessary to get the assets ready for the intended use are in progress. Direct costs from the start of the project up to completion of the project are capitalized.

### 5.14 Intangible assets

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

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

## 5. Summary of significant accounting policies (continued)

**5.14 Intangible assets (continued)**

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

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

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

**5.15 Impairment testing of goodwill and non financial assets**

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

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

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

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

## 5. Summary of significant accounting policies (continued)

### 5.16 Financial instruments

***5.16.1 Recognition, initial measurement and derecognition***

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

Subsequent measurement of financial assets and financial liabilities are described below.

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

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

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

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

***5.16.2 Classification and subsequent measurement of financial assets***

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

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- available-for-sale (AFS) financial assets.

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

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

## 5. Summary of significant accounting policies (continued)

### 5.16 Financial instruments (continued)

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

***• 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 recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

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

In addition, in accordance with Central Bank of Kuwait instructions, a minimum general provision is made on all applicable credit facilities (net of certain categories of collateral) that are not provided for specifically.

In March 2007, the Central Bank of Kuwait ("CBK") issued a circular amending the basis of making general provisions on facilities from 2% to 1% for cash facilities and 0.5% for non cash facilities. The required rates were to be applied effective from 1 January 2007 on the net increase in facilities, net of certain restricted categories of collateral, during the reporting period. During the year 2008, the Central Bank of Kuwait allowed the Group to reverse the excess of general provision 1% in the consolidated statement of income, so that the amount will be transferred to the general reserve.

The Group categorises loans and receivables into following categories:

***• Loans and advances***

Loans and advances are financial assets originated by the Group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.

***• Trade receivables***

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

***• Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are not subject to significant risk of changes in value.

## 5. Summary of significant accounting policies (continued)

### 5.16 Financial instruments (continued)

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

**• Financial assets at FVTPL**

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

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

**• AFS financial assets**

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

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

The Group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss is removed from other comprehensive income and recognised in the consolidated income statement.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

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

The Group's financial liabilities include borrowings, trade and other payables.

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

## 5. Summary of significant accounting policies (continued)

### 5.16 Financial instruments (continued)

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

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

These are stated using effective interest rate method. Payables and other credit balances, due to related parties, borrowings and advances received from customers are classified as financial liabilities other than at FVTPL.

***• Trade payables***

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

***• Borrowings***

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

***• Advances received from customers***

Advances received from customers represent money received from customers towards instalments for properties in accordance with the terms of the sale agreements.

#### 5.16.4 Amortised cost of financial instruments

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

#### 5.16.5 Trade and settlement date accounting

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

#### 5.16.6 Offsetting of financial instruments

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

## 5. Summary of significant accounting policies (continued)

### 5.16 Financial instruments (continued)

#### *5.16.7 Fair value of financial instruments*

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note (44).

### 5.17 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

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

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

Other components of equity include the following:

- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into KD
- Fair value reserve – comprises gains and losses relating to available for sale financial assets

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

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

### 5.18 Treasury shares

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

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

## 5. Summary of significant accounting policies (continued)

### 5.19 Provisions, contingent assets and contingent liabilities

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

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

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

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

### 5.20 Foreign currency translation

#### *5.20.1 Functional and presentation currency*

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

#### *5.20.2 Foreign currency transactions and balances*

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

#### *5.20.3 Foreign operations*

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

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

### 5.21 End of service indemnity

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

## 5. Summary of significant accounting policies (continued)

**5.21 End of service indemnity (continued)**

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

**5.22 Fiduciary assets**

Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the Group and accordingly are not included in these consolidated financial statements.

## 6. Significant management judgements and estimation uncertainty

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

**6.1 Significant management judgments**

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

***6.1.1 Classification of financial instruments***

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

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

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

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

All other financial assets are classified as available for sale.

***6.1.2 Classification of real estate***

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

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

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

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

## 6. Significant management judgements and estimation uncertainty (continued)

### 6.1 Significant management judgments (continued)

#### *6.1.3 Fair values of assets and liabilities acquired*

The determination of the fair value of the assets, liabilities and contingent liabilities as a result of business combination requires significant judgement.

### 6.2 Estimates uncertainty

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

#### *6.2.1 Impairment of goodwill and other intangible assets*

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

#### *6.2.2 Impairment of associates*

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

#### *6.2.3 Impairment of available for sale equity investments*

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

#### *6.2.4 Impairment of trade receivables*

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

#### *6.2.5 Useful lives of depreciable assets*

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

#### *6.2.6 Business combinations*

Management uses valuation techniques in determining the fair values of the various elements of a business combination. Particularly, the fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability (see Note 5.2).

## 6. Significant management judgements and estimation uncertainty (continued)

### 6.2 Estimates uncertainty (continued)

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

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

## 7. Subsidiary companies

### 7.1 Details of the Group's material consolidated subsidiaries at the end of the reporting period are as follows:

| Consolidated subsidiaries | Ownership percentage | | Place of incorporation | Principal activity | Establishment / acquisition date |
|---|---|---|---|---|---|
| | **2013** | 2012 | | | |
| IFA Hotels and Resorts Co.– KPSC | **55.939%** | 57.558% | Kuwait | Hotel operations | 2003 |
| Seven Seas Resorts Co. – KSCC | **48.299%** | 48.299% | Kuwait | Hotel operations | 2003 |
| Gulf Real Estate Co. – WLL | **46.318%** | 46.318% | Kuwait | Real estate | 2004 |
| IFA Aviation Co. – KSCC | **74.8%** | 74.8% | Kuwait | Aviation | 2006 |
| Radeem Real Estate Co. – SAL | **99.7%** | 99.7% | Lebanon | Real estate | 2006 |
| Dana Real Estate Co. – SAL | **90%** | 90% | Lebanon | Real estate | 2006 |

### 7.2 Subsidiaries with material non-controlling interests

The group includes one subsidiary, with material non-controlling interests (NCI):

| Name | Proportion of ownership interests and voting rights held by the NCI | | Profit allocated to NCI | | Accumulated NCI | |
|---|---|---|---|---|---|---|
| | **31 Dec. 2013 KD** | 31 Dec. 2012 KD | **31 Dec. 2013 KD** | 31 Dec. 2012 KD | **31 Dec. 2013 KD** | 31 Dec. 2012 KD |
| IFA Hotels and Resorts Co. – KPSC (IFAHR) | **44.061%** | 42.442% | **7,477,442** | 1,010,557 | **36,104,185** | 14,157,421 |
| Individually immaterial subsidiaries with non controlling interests | | | **(317,497)** | (505,470) | **1,804,790** | 2,098,414 |
| | | | **7,159,945** | 505,087 | **37,908,975** | 16,255,835 |

## 7. Subsidiary companies (continued)

### 7.2 Subsidiaries with material non-controlling interests (continued)

Summarised financial information for IFA Hotels & Resorts Company - KPSC, before intragroup eliminations, is set out below:

The figures below have been adjusted to include the effects of significant transactions in financial statement between 30 September 2013 and 31 December 2013.

| | 31 Dec. 2013 IFAHR KD'000 | 31 Dec. 2012 IFAHR KD'000 |
|---|---|---|
| Non-current assets | 218,712 | 196,599 |
| Current assets | 172,438 | 181,635 |
| Total assets | 391,150 | 378,234 |
| Non-current liabilities | 126,971 | 149,421 |
| Current liabilities | 180,090 | 193,023 |
| Total liabilities | 307,061 | 342,444 |
| Equity attributable to the shareholders of the parent company | 47,985 | 21,633 |
| Non-controlling interest | 36,104 | 14,157 |

| | 31 Dec. 2013 IFAHR KD'000 | 31 Dec. 2012 IFAHR KD'000 |
|---|---|---|
| Revenue | 51,016 | 8,314 |
| Profit /(loss) for the year attributable to the shareholders of the parent company | 10,873 | (2,326) |
| Profit /(loss)for the year attributable to NCI | 7,949 | (1,716) |
| Profit /(loss) for the year | 18,822 | (4,042) |
| Other comprehensive loss for the year attributable to the shareholders of the parent company | (1,465) | (784) |
| Total other comprehensive income for the year | (1,465) | (784) |
| Total comprehensive profit /(loss) for the year attributable to the shareholders of the parent company | 9,408 | (3,105) |
| Total comprehensive profit /(loss) for the year attributable to NCI | 7,949 | (1,721) |
| Total comprehensive profit / (loss) for the year | 17,357 | (4,826) |

## 7. Subsidiary companies (continued)

### 7.2 Subsidiaries with material non-controlling interests (continued)

| | **31 Dec. 2013 IFAHR** | 31 Dec. 2012 IFAHR |
|---|---|---|
| | **KD'000** | KD'000 |
| Net cash flow from operating activities | **(1,778)** | (1,561) |
| Net cash flow from investing activities | **17,231** | (8,654) |
| Net cash flow from financing activities | **(14,267)** | 8,271 |
| **Net cash inflow** | **1,186** | (1,944) |

**7.3** The financial year end of IFA Hotels and Resorts Company – KPSC (subsidiary company) is 31 December 2013, but for the purpose of consolidating of that subsidiary in to the Group's consolidated financial statements, the financial statement for the period ended 30 September 2013 have been used after appropriate adjustments have been made for the effects of significant transactions on year ended 31 December 2013.

At the ordinary and extra-ordinary general assembly held on 10 July 2013, the shareholders of the subsidiary Company (IFA Hotels and Resorts Company – KPSC) approved to increase the paid up share capital by 181,552,200 shares (40% from share capital) by way of an issue new shares, at par value of 100 fils per share and premium of 80 fils per share.

On 29 August 2013, the subsidiary Company's Article of Association has been amended to incorporate the revised authorised share capital of KD63,543,420 (consisting of 635,434,200 shares of 100 Fils each).

Accordingly, the subsidiary company has completed the relevant formalities with regards to capital increase which resulted in an increase in the issued share capital and share premium by KD18,155,220 and KD14,524,176 respectively. The increase was done partly by cash (KD1,630,959) and the balance by way of utilising "due from related parties" (KD21,104,800) and, term loan from a related party (KD9,943,637).

The effect on the above transaction was dully taken to group financial statement as of 31 December 2013.

## 8. Interest and similar income

Interest and similar income resulted from financial assets as follows:

| | **Year ended 31 Dec. 2013 KD** | Year ended 31 Dec. 2012 KD |
|---|---|---|
| Financing of future trades | **-** | 7,432 |
| Loans receivable | **46,440** | 92,608 |
| Cash and cash equivalents | **423,622** | 421,803 |
| Late payments by customers | **52,361** | 51,437 |
| Loans to related parties | **17,068** | 16,767 |
| | **539,491** | 590,047 |
| Interest and similar income on financial assets at fair value | **-** | 7,432 |
| Interest and similar income on financial assets not at fair value | **539,491** | 582,615 |
| | **539,491** | 590,047 |

## 9. Management fees and commission income

| | **Year ended 31 Dec. 2013 KD** | Year ended 31 Dec. 2012 KD |
|---|---|---|
| Management fees on assets under management | **183,157** | 228,203 |
| Consulting fees from managed assets | **582,444** | 577,397 |
| | **765,601** | 805,600 |

## 10. Dividends income

Dividends income resulted from financial assets as follows:

| | **Year ended 31 Dec. 2013 KD** | Year ended 31 Dec. 2012 KD |
|---|---|---|
| Investments at fair value through profit or loss | **129,990** | 398,269 |
| Available for sale investments | **-** | 407,002 |
| | **129,990** | 805,271 |

## 11. Net income from hoteliers and related services

| | Year ended 31 Dec. 2013 KD | Year ended 31 Dec. 2012 KD |
|---|---|---|
| Revenue | **17,070,329** | 5,562,960 |
| Costs | **(8,700,885)** | (1,860,953) |
| | **8,369,444** | 3,702,007 |

## 12. Net (loss)/gain on investments

Net (loss)/gain on investments, analyzed by category for the year ended 31 December 2013 and 31 December 2012 are as follows:

| | **31 Dec. 2013** | | | 31 Dec. 2012 | | |
|---|---|---|---|---|---|---|
| | **Investments at fair value through profit or loss KD** | **Available for sale investments KD** | **Total KD** | Investments at fair value through profit or loss KD | Available for sale investments KD | Total KD |
| Realized (loss)/gain | **(1,846,031)** | **145,957** | **(1,700,074)** | 1,838,689 | 380,062 | 2,218,751 |
| Unrealized gain /(loss) | **17,513** | **-** | **17,513** | (107,433) | - | (107,433) |
| | **(1,828,518)** | **145,957** | **(1,682,561)** | 1,731,256 | 380,062 | 2,111,318 |

## 13. Net gain on investment properties

| | Year ended 31 Dec. 2013 KD | Year ended 31 Dec. 2012 KD |
|---|---|---|
| Realized gain arising from sale of investment properties (Note 26.3 - g) | **-** | 1,189,885 |
| Unrealized gain /(loss)arising from revaluations for years 2012 and 2013 ( Note 26.3 - b) | **38,778,043** | (607,600) |
| | **38,778,043** | 582,285 |

## 14. (Loss)/gain on sale of properties under development

(Loss)/gain on sale of properties under development represents the revenue and the costs related to the properties under development which have been originally purchased by the group for the purpose of development and resale to customers.

| | Year ended 31 Dec. 2013 KD | (Restated) Year ended 31 Dec. 2012 KD |
|---|---|---|
| Sales revenue | **23,257,522** | 4,939,338 |
| Cost of sales | **(25,121,541)** | (4,766,240) |
| | **(1,864,019)** | 173,098 |

## 15. Other income

The other income consists of the following:

| | Year ended 31 Dec. 2013 KD | (Restated) Year ended 31 Dec. 2012 KD |
|---|---|---|
| Net Income from aviation services | **-** | 98,534 |
| Properties rental income | **7,895** | 3,289 |
| Loss from foreign currency revaluation | **(381,180)** | (476,850) |
| Net income from ticket sales and related services | **172,992** | 79,644 |
| Reversal of excess provision on margin loans (Note 21.2) | **470,884** | 54,450 |
| (Loss)/Income on default of customers to the terms in the sale contracts of the sold residential units | **(675,236)** | 818,176 |
| Interest on delayed land payment | **(1,819,213)** | (236,648) |
| Other miscellaneous income | **114,137** | 1,957,640 |
| | **(2,109,721)** | 2,298,235 |

## 16. Interest and similar expenses

Interest and similar expenses result from the group's short, medium and long term borrowing activities. All these financial liabilities of the group are stated at amortised cost.

## 17. Basic and diluted earnings/(loss) per share attributable to the owners of the parent company

Earnings /(loss) per share is calculated by dividing the profit /(loss) for the year attributable to the owners of the parent company, by the weighted average number of shares outstanding of the parent company during the year after deducting treasury shares as follows:

| | Year ended 31 Dec. 2013 | Year ended 31 Dec. 2012 |
|---|---|---|
| Profit/(loss) for the year attributable to the owners of the parent company (KD) | **2,926,182** | (24,895,259) |
| Weighted average number of shares outstanding (excluding treasury shares) (share) | **670,387,146** | 669,976,861 |
| Basic and diluted earnings/(loss) per share attributable to the owners of the parent company (Fils) | **4.36** | (37.16) |

## 18. Cash and cash equivalents

| | 31 Dec. 2013<br>KD | (Restated)<br>31 Dec. 2012<br>KD |
|---|---|---|
| Bank balances and cash | **6,132,420** | 14,782,092 |
| Fixed deposits | **562,607** | 229,869 |
| Due to banks | **(990,488)** | (996,978) |
| Cash and cash equivalents in the consolidated statement of cash flows | **5,704,539** | 14,014,983 |

## 19. Investments at fair value through profit or loss

| | 31 Dec. 2013<br>KD | 31 Dec. 2012<br>KD |
|---|---|---|
| **Held for trading:** | | |
| **Local** | | |
| Quoted securities and managed funds | **1,468,546** | 1,864,880 |
| Unquoted securities | **232,334** | 250,619 |
| | **1,700,880** | 2,115,499 |
| **Foreign** | | |
| Quoted securities | **1,861,974** | 3,883,870 |
| **Total** | **3,562,854** | 5,999,369 |

## 20. Receivables and other debit balances

| | 31 Dec. 2013 | (Restated) 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Trade receivables | 5,252,568 | 4,296,622 |
| Advances and prepayments | 1,118,906 | 2,204,363 |
| Kuwait Clearing Company receivables | 143,075 | 182,744 |
| Staff receivables | 26,909 | 24,962 |
| Prepaid expenses | 2,662,314 | 1,076,653 |
| Advances to contractors | 1,323,569 | 1,384,003 |
| Other miscellaneous receivables (below) | 7,972,655 | 7,028,501 |
| | 18,499,996 | 16,197,848 |

Other miscellaneous receivables include investments on time share with net value amounting to KD155,255. After deduction of impairment loss in the investments on time share amounted to KD500,000 (Nil in 31 December 2012) included in the consolidated statement of income for the year.

## 21. Loans receivable

### 21.1 Loans balances and effective interest rates are as follows:

| | 31 Dec. 2013 | Effective interest rate | 31 Dec. 2012 | Effective interest rate |
|---|---|---|---|---|
| | KD | | KD | |
| Margin loans | 1,043,789 | 2% - 5% | 3,540,622 | 2% - 5% |
| Staff loans | 15,438 | - | 17,384 | - |
| Loans to clients | 1,315,860 | 2% - 5% | 1,315,860 | 2% - 5% |
| | 2,375,087 | | 4,873,866 | |
| Provisions | (1,282,287) | | (1,478,757) | |
| | 1,092,800 | | 3,395,109 | |

### 21.2 The movement on provisions is as follows:

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Beginning balance | 1,478,757 | 2,290,148 |
| Provision charge for the year (included in other operating expenses) | 274,414 | 79,327 |
| Reversal of excess provision on margin loans (Note 15) | (470,884) | (54,450) |
| Write off consumer, real estate and reschedule loans against provision balances | - | (836,268) |
| Ending balance | 1,282,287 | 1,478,757 |

The policy of the parent company for the calculation of the provisions for loans receivable complies in all material respects with the requirements of the Central Bank of Kuwait relating to specific and general provisions.

## 22. Due from / to related parties

| | 31 Dec. 2013 KD | (Restated) 31 Dec. 2012 KD |
|---|---|---|
| **Due from related parties:** | | |
| IFA Properties Brokerage Company | 726,902 | 449,050 |
| IFA Yacht Chartering (LLC) – below (c) | - | 4,717,511 |
| Marasi Al Ofuq General Trading Co. – WLL | 1,551,746 | 1,551,746 |
| Istithmar Company (PJSC) | - | 1,323,351 |
| IFA Hotel Investment Co. | - | 1,259,606 |
| Al Deera Holding Company – KPSC | 1,838,240 | 518,205 |
| International Resorts Company – KPSC | 468,257 | - |
| Souq Residence FZ Co. – below (a) | 8,666,643 | - |
| Other related parties (Dr) | 1,113,176 | 448,329 |
| | 14,364,964 | 10,267,798 |
| Provision for doubtful debts - below (a) | (1,486,350) | (7,329,407) |
| | 12,878,614 | 2,938,391 |
| **Due to related parties:** | | |
| IFA Zimbali H & R (Pty) Ltd | 1,030,937 | 1,677,891 |
| Al Tilal Investment Co. – WLL | 1,223,947 | 1,241,012 |
| Kuwait Real Estate Company – KPSC | 7,317,181 | 6,214,834 |
| Al Rana General Trading Co. – WLL | 2,497,585 | 709,257 |
| Kuwait Holding Co. – KSC | 2,059,073 | 59,804 |
| IFA Hotels & Resorts 2 Ltd | - | 123,701 |
| IFA Consulting Services Co. – WLL | 222,381 | 150,133 |
| International Resorts Company – KPSC | - | 160,362 |
| Al Dahiya Investment Co. – WLL | 5,298,992 | 5,318,646 |
| The Palm Golden Mile (JV) | 2,054,177 | 2,306,204 |
| IFA One Real Estate Co. | 1,017,459 | - |
| Other related parties (Cr) | 647,790 | 119,598 |
| | 23,369,522 | 18,081,442 |

(a) During the year, a review of the provisions for doubtful debts was conducted by the Provisioning Committee, formed by the parent company Board of Directors, to ensure that all provisioning has been made in accordance with the provisioning requirements of the Central Bank of Kuwait regarding general and specific provisioning on loans receivables and also other provisions imposed by the Central Bank on the amounts due for related parties as at 30 September 2010 which was calculated to be KD7,329,407 equivalent to 20% of the outstanding balances of KD36,647,037 as of that date.

The Committee concluded that a write back in provision of KD5,843,057 should be made because the outstanding balances have gone down from KD36,647,037 to KD7,431,750 as at 31 December 2013. After due exclusion of the new balances formed during the year KD2,629,217 plus the amount of KD8,666,643 that was conservatively recorded as due from the Joint Venture (Souq Residence) and to be utilized to settle the same amount recorded as contra account under due to Tamweel PJSC and included in the accounts payable (notes 32 and 40) respectively pending finalizations of the case.

Accordingly, the provision balance for doubtful amounts due from related parties will be KD1,486,350 which is equivalent to 20% of the outstanding balances. The Board of Directors of the parent company has approved the write back of KD5,843,057 and to include it in the consolidated statement of income for the year (note 43).

## 22. Due from/to related parties (continued)

(b) During the year, the group recognised the total amount of KD1,301,682 as advisory income resulting from advisory services extended to related party after the successful completion of such services and in accordance with the contractual agreement dated 28 September 2012 with the said related party (note 43).

(c) During the year, old balances due from related parties amounting to KD4,830,999 (2012: KD1,586,605) including IFA Yacht Chartering (LLC) with an amount of KD4,657,186 and other related parties with an amount of KD173,813 have been written off as the balances are irrecoverable based on estimates made by management and information available as at the date of the consolidated statement of financial position (note 43).

## 23. Trading properties

### 23.1 Trading properties consist of:

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Residential apartments in Dubai (UAE) | - | 329,633 |
| Properties in South Africa | 4,212,858 | 5,136,628 |
| | 4,212,858 | 5,466,261 |

### 23.2 The movement on trading properties is as follows:

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Beginning balance | 5,466,261 | 5,683,758 |
| Additions during the year | 11,025 | 13,247 |
| Charged to cost of sales | (382,958) | (181,655) |
| Foreign currency exchange differences | (881,469) | (49,089) |
| Ending balance | 4,212,859 | 5,466,261 |

The trading properties in South Africa represent plots of lands purchased in South Africa for trading purposes and comprise land at cost and development expenditure related to unsold properties.

## 24. Asset classified as held for sale

The balance at 31 December 2012 represents 25% holding in Raimon Land Public Company Limited. At the end of 2012 this investment was classified as "held for sale" during that year because the subsidiary Company's management had decided to sell this investment. The group sold its holding (25%) in this investment for a consideration equivalent to KD19,317,061 resulting in a gain of KD11,301,639 (2012: KD2,038,160) included in the consolidated statement of income for the year.

## 25. Available for sale investments

### 25.1 The available for sale investments comprise of:

| | 31 Dec. 2013<br>KD | 31 Dec. 2012<br>KD |
|---|---|---|
| Quoted securities | **3,895,888** | 3,922,223 |
| Unquoted securities | **30,168,855** | 41,327,965 |
| | **34,064,743** | 45,250,188 |

Unquoted securities include securities amounting to KD11,412,018 (2012: KD12,085,277) that are carried at cost as of the date of the consolidated statement of financial position due to unavailability of reliable sources to determine their fair value, out of which an amount of KD2,818,594 (2012: KD692,730)has been purchased during the current year. Those investments comprise of direct participation in newly established companies that have not commenced operations, or companies that have recently commenced operations but their financial statements are not issued yet. Based on the available valuation methods, no indications have been observed for any impairment in the contribution amount in these companies. The management is not aware of any circumstances that would indicate any impairment in the value of these investments as of the date of the consolidated statement of financial position.

During the year, the group recognised an impairment loss of KD768,850 (2012: KD1,411,190) against quoted and unquoted securities as the fair value of these securities declined significantly below their cost.

### 25.2 The movement on available for sale investments are as follows:

| | 31 Dec. 2013<br>KD | 31 Dec. 2012<br>KD |
|---|---|---|
| Beginning balance | **45,250,188** | 41,926,305 |
| Purchases during the year | **4,387,884** | 1,992,395 |
| Disposals during the year | **(14,251,711)** | (5,076,978) |
| Net movement in fair value | **(552,768)** | 7,819,656 |
| Impairment loss in value during the year | **(768,850)** | (1,411,190) |
| Ending balance | **34,064,743** | 45,250,188 |

### 25.3 The movement on the balance of cumulative changes in fair value is as follows:

| | 31 Dec. 2013<br>KD | 31 Dec. 2012<br>KD |
|---|---|---|
| Beginning balance | **11,913,806** | 4,094,149 |
| Change in fair value during the year | **(2,145,539)** | 5,531,258 |
| Transferred to consolidated statement of income on impairment in value | **768,850** | 1,411,190 |
| Transferred to consolidated statement of income on sale | **2,080,971** | 877,209 |
| Ending balance | **12,618,088** | 11,913,806 |

## 26. Investment properties

**26.1 Investment properties are geographically distributed among the following countries:**

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Lebanon | 1,850,037 | 1,858,471 |
| Jordan | 401,800 | 401,800 |
| UAE | 46,371,172 | 18,729,771 |
| Egypt | 354,966 | 354,966 |
| Portugal | 9,379,838 | 8,942,632 |
| South Africa | 3,851 | 175,697 |
| | 58,361,664 | 30,463,337 |

**26.2 Investment properties represent the following:**

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Freehold land in Zimbali – South Africa | 3,851 | 175,697 |
| Land in Jordan | 401,800 | 401,800 |
| Land in UAE | 462,886 | 413,894 |
| Land in Egypt | 354,966 | 354,966 |
| Apartments in Dubai – UAE | 343,724 | 297,277 |
| Building in Lebanon | 1,850,037 | 1,858,471 |
| Apartments in Portugal | 9,379,838 | 8,942,632 |
| Crescent Palm Jumeirah (freehold land in the Crescent area) & Kingdom of Sheba (KOS) Vacation Club | 45,564,562 | 18,018,600 |
| | 58,361,664 | 30,463,337 |

**26.3 The movement on investment properties is as follows:**

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Beginning balance | 30,463,337 | 32,233,502 |
| Changes in fair value during 2012 recorded in 2013 – below (d) | 19,932,188 | - |
| Total value at the beginning of the year | 50,395,525 | 32,233,502 |
| Transferred from capital work in progress (Note 30.2) | 11,481,670 | - |
| Transferred to properties under development (Note 29.2) | (23,125,145) | - |
| Disposals during the year – below (g) | - | (1,126,373) |
| Changes in fair value during the year – below (e) | 18,845,855 | (607,600) |
| Net foreign currency exchange differences | 763,759 | (36,192) |
| Ending balance | 58,361,664 | 30,463,337 |
| Unrealised gain/(loss) recognised in the consolidated statement of income resulting from change in fair value | 38,778,043 | (607,600) |

## 26. Investment properties (continued)

### 26.3 The movement on investment properties is as follows: (continued)

(a) Other foreign investment properties with a carrying value of KD2,606,803 (2012: KD2,213,437) have not been valued by independent foreign valuers according to the requirements of the Kuwaiti Capital Market Authority, but these have been carried at cost which does not differ significantly from the fair value in accordance with the management's estimates of their values at the year end.

(b) The fair value of other investment properties located outside the State of Kuwait has been estimated by independent external valuers where the revaluation gain has amounted to KD38,778,043 (2012: loss of amount KD607,600) [Note (13) and see (d) and (e) below].

(c) As the group consolidated the financial statements of one of its main subsidiaries (IFA Hotel and Resorts Company – KPSC) listed in Kuwait Stock Exchange based on the consolidated financial position of this subsidiary issued three months before the date of the consolidated statement of financial position of the group which is 30 September 2013 and it has been disclosed in Kuwait Stock Exchange, and the reason is the main subsidiary company has lots of subsidiaries and associates companies outside state of Kuwait, which requires suitable period of time for receiving their financial statements.

(d) The group recognised during the year profit resulting from re-estimation of the fair value as at 31 December 2012 of properties in Palm Jumeriah land, Dubai, UAE and Pinecliff Resort, Portugal which have been estimated by independent external valuers licensed to practice real estate evaluation profession according to the requirement of CMA in Kuwait, where the revaluation gain amounting to KD19,885,741 has been recognised in the consolidated statement of income during the current year.

(e) The above mentioned properties were revalue during the current year and profit resulting from re-estimation of the fair values of those properties amounting to KD18,796,864 has been recognised in the consolidated statement of income for the year.

(f) During the year the group decided to transfer the Kingdom of Sheba Hotel, land and cost of initial work in UAE subsidiary from capital work in progress to investment properties with an amount of KD11,481,670.

(g) During the year 2012, the group sold investment properties for a consideration of KD2,316,258 which resulted in a net gain amounting to KD1,189,885 (Nil in 2013), included in net gain on investment properties (Note 13).

## 27. Investment in associates and joint ventures

| | **31 Dec. 2013** | (Restated)<br>31 Dec. 2012 |
|---|---|---|
| | **KD** | KD |
| Investment in associates (Note 27.1) | **36,632,501** | 37,192,511 |
| Investment in joint ventures (Note 27.4) | **15,028,671** | 20,464,845 |
| | **51,661,172** | 57,657,356 |

## 27. Investment in associates and joint ventures (continued)

### 27.1 The details of the associates are as follows:

| Company name | Principal Activities | Place of incorporation | 31 Dec. 2013 | | 31 Dec. 2012 | |
|---|---|---|---|---|---|---|
| | | | % | KD | % | KD |
| Zamzam Religious Tourism Co. – KSCC | Hajj & Umrah | Kuwait | 20 | **41,153** | 20 | 50,000 |
| Legend & IFA Developments (Pty) Ltd (b - below) | Property development | South Africa | 50 | **6,994,390** | 50 | 11,092,419 |
| Arzan Financial Group For Financing and Investment – KPSC | Financing | Kuwait | 19.63 | **29,596,958** | 19.63 | 26,050,092 |
| | | | | **36,632,501** | | 37,192,511 |

The above is made up as follows:

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Direct equity investments in the company's capital | **29,638,111** | 26,100,104 |
| Shareholders loan (b - below) | **6,994,390** | 11,092,407 |
| | **36,632,501** | 37,192,511 |

(a) During the year, the group recognised an impairment loss amounting to KD Nil (KD5,000,000 in 31 December 2012) against the investment value in an associate (Arzan Financial Group For Financing and Investment – KPSC) since it was found that there is a decrease in the investment value above its carrying value by using the discounted cash flow method to estimate the fair value by the management. The market value of the other associates also significantly above the carrying value of these companies in the group's records.

Also during the year, the group sold some shares of (Arzan Financial Group For Financing and Investment – KPSC) from which a loss of amount KD78,306 has resulted (KD3,296,348 in 31 December 2012) included in the consolidated statement of income for the year.

(b) Investment in Legends & IFA Developments (Pty) Limited, includes shareholders' loans of KD6,994,390 (KD11,092,407 in 31 December 2012) during the year KD3,216,178 was recognised as impairment loss relating to this loan. (Nil in 31 December 2012). Also the group recongised impairment loss amounted to KD1,541,521 relating to loan from shareholders to Zilwa Limited (joint venture). These loans are unsecured and are not repayable before 31 December 2014.

(c) The aggregate fair market value of the quoted investments is as follows:

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Carrying amount of quoted securities | **29,596,958** | 26,050,092 |
| Fair value of quoted securities | **12,126,085** | 10,880,634 |

## 27. Investment in associates and joint ventures (continued)

### 27.2 Summarized financial information in respect of group's share in the associates is set out below:

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Total Assets | **172,089,465** | 150,975,600 |
| Total Liabilities | **(47,236,038)** | (45,281,425) |
| Total equity | **124,853,427** | 105,694,175 |
| | | |
| Group's share of net assets of associates at carrying value | **31,263,662** | 31,740,971 |
| Goodwill on acquisition (Note 27.3) | **5,368,839** | 5,451,540 |
| Investment in associates as on 31 December | **36,632,501** | 37,192,511 |
| | | |
| Total revenue | **4,936,822** | 9,317,006 |
| Groups' share of profit / (loss) from associated companies | **327,041** | (1,109,406) |

### 27.3 Goodwill in associates which is included in the value of investments:

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Beginning balance | **5,451,540** | 14,463,273 |
| Additions during the year | **-** | 893,561 |
| Disposal during the year | **(82,701)** | (2,004,351) |
| Impairment loss in value [27.1(a)] | **-** | (5,000,000) |
| Re-classified to asset classified as held for sale | **-** | (2,900,943) |
| Ending balance | **5,368,839** | 5,451,540 |

### 27.4 Investments in joint ventures (transition to IFRS 11)

| | 31 Dec. 2013 | (Restated)<br>31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Interest in Zilwa Limited (the principal activity of the joint venture is property development) – South Africa | **872,295** | 1,639,469 |
| Interest in Zimbali Estates (PTY) Ltd. (the principal activity of the joint venture is the sale of developed property) – South Africa | **102,764** | 98,091 |
| Interest in Palm Golden Mile Joint Venture (the principal activity of the Joint Venture is design, development, construction, marketing, sale of apartment and rental of shopping centers and residential apartments) – UAE | **14,053,612** | 18,727,285 |
| | **15,028,671** | 20,464,845 |

## 27. Investment in associates and joint ventures (continued)

**27.5 Summarized financial information in respect of group's share in the joint ventures is set out below:**

| | 31 Dec. 2013 | (Restated) 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| Total Assets | **105,832,332** | 106,514,575 |
| Total Liabilities | **(74,221,715)** | (65,584,885) |
| Total equity | **31,610,617** | 40,929,690 |
| Group's share of net assets of joint ventures at carrying value | **15,028,671** | 20,464,845 |
| Total revenue | **188,100** | 403,764 |
| Groups' share of profit from joint ventures | **(4,777,165)** | (123,203) |

**27.6 The effect of applying IFRS 11:**

Under IAS 31 Investment in Joint Ventures (prior to the transition to IFRS 11), the Group's interest in the above joint ventures were classified as jointly controlled entities and the group's share of the assets, liabilities, revenue, income and expenses were proportionately consolidated in the consolidated financial statements. Upon adoption of IFRS 11, the group has determined its interest to be a joint venture and it is required to be
accounted for using the equity method. The effect of applying IFRS 11 is as follows:

**Impact on the consolidated statement of income:**

| | 31 Dec.2012 |
|---|---|
| | KD |
| Decrease in net income from properties under development | (85,769) |
| Increase in share of results of associates and joint ventures | (123,203) |
| Decrease in other income | 6,770 |
| Decrease in staff costs | 4,230 |
| Decrease in other operating expenses | 177,940 |
| Decrease in depreciation | 644 |
| Decrease in finance costs | 187 |
| **Total** | 19,201 |
| Decrease in loss before taxation, provision for KFAS, NLST and Zakat | (19,201) |
| Increase in tax income relating to overseas subsidiaries | 19,201 |
| Net impact on profit for the year | - |

## 27. Investment in associates and joint ventures (continued)

**27.6 The effect of applying IFRS 11: (continued)**

**Impact on the consolidated statement of financial position:**

| | 31 Dec. 2012 |
|---|---|
| | KD |
| Increase in investment is associates and joint ventures | 20,464,845 |
| Decrease in property, plant and equipment | (44,620) |
| Decrease in capital work in progress | (22,058,082) |
| Decrease in properties under development | (972,898) |
| Decrease in accounts receivables and other assets | (7,004,334) |
| Decrease in due from related parties | (1,802,802) |
| Decrease in cash & cash equivalents | (881,098) |
| Increase in due to related parties | (2,306,204) |
| Decrease in accounts payable and other liabilities | 5,850,990 |
| Decrease in advance received from customers | 3,832,000 |
| Decrease in borrowing | 4,922,203 |
| **Net impact on equity** | - |

**27.7 Share of loss from associates and joint ventures:**

| | **31 Dec. 2013** | (Restated) 31 Dec. 2012 |
|---|---|---|
| | **KD** | KD |
| Groups' share of profit / (loss) from associates | **327,041** | (1,109,406) |
| Groups' share of loss from joint ventures | **(4,777,165)** | (123,203) |
| Group share of loss from associates and joint ventures | **(4,450,124)** | (1,232,609) |

## 28. Goodwill

| | **31 Dec. 2013** | 31 Dec. 2012 |
|---|---|---|
| | **KD** | KD |
| Beginning balance | **48,678,399** | 48,679,192 |
| Foreign currency exchange differences | **(13,094)** | (793) |
| Ending balance | **48,665,305** | 48,678,399 |

*Test for impairment*

The group assessed the amount of goodwill raised from its subsidiaries by using the discounted cash flows method on the basis of discount rate of 15% and comparing the carrying value with market fair value. The valuation has not resulted in any indication of impairment as of the date of the consolidated statement of financial position date.

## 29. Properties under development

### 29.1 The properties under development consist of the following in the below countries:

| | 31 Dec. 2013 KD | (Restated) 31 Dec. 2012 KD |
|---|---|---|
| a) UAE (Note 29.2) | | |
| **Land cost** | | |
| - Balqis Residence | **23,898,053** | 23,670,549 |
| - Jumeirah Lake, Dubai | **-** | 2,704,131 |
| - Kingdom of Sheeba Heritage Place | **4,201,187** | 4,161,192 |
| - Cresent – Palm Jumeirah | **23,125,145** | - |
| - The Trunk – Palm Jumeirah | **552,181** | - |
| Construction pilling and enabling works | **61,305,097** | 71,061,114 |
| Other costs related to construction | **21,355,354** | 24,267,313 |
| | **134,437,017** | 125,864,299 |
| b) South Africa (Note 29.3) | **5,626,047** | 7,772,050 |
| c) Lebanon Republic | **12,652,318** | 15,663,592 |
| **Total** | **152,715,382** | 149,299,941 |

### 29.2 The movement on properties under development in UAE is as follows:

| | 31 Dec. 2013 KD | (Restated) 31 Dec. 2012 KD |
|---|---|---|
| **Land:** | | |
| Beginning balance | **30,529,834** | 30,158,548 |
| Additions during the year | **-** | 371,286 |
| Charged to cost of sales | **(1,681,019)** | - |
| Transferred to capital work in progress (Note 30.2) | **(496,922)** | - |
| Ending balance | **28,351,893** | 30,529,834 |
| **Development expenditure:** | | |
| Beginning balance | **95,144,464** | 89,426,270 |
| Additions during the year | **5,432,745** | 5,718,194 |
| Charged to cost of sales | **(16,087,652)** | - |
| Transferred from investment properties (Note 26.3) | **23,125,145** | - |
| Transferred to capital work in progress (Note 30.2) | **(1,892,918)** | - |
| Transferred to materials in sites and stores | **(1,040,092)** | - |
| Ending balance | **104,681,692** | 95,144,464 |
| | **133,033,585** | 125,674,298 |
| Foreign currency exchange differences | **1,403,432** | 190,001 |
| **Total** | **134,437,017** | 125,864,299 |

## 29. Properties under development

**29.3 The movement on properties under development in South Africa is as follows:**

| | 31 Dec. 2013 | (Restated) 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| **Land:** | | |
| Beginning balance | **1,618,765** | 2,454,600 |
| Additions | **156,110** | - |
| Charged to cost of sales | **(46,511)** | - |
| Impairment loss in value | **-** | (835,835) |
| Ending balance | **1,728,364** | 1,618,765 |
| **Development expenditure:** | | |
| Beginning balance | **3,699,408** | 3,923,437 |
| Additions during the year | **103,064** | 22,507 |
| Charged to cost of sales | **(1,020,932)** | (223,711) |
| Impairment loss in value | **-** | (22,825) |
| Ending balance | **2,781,540** | 3,699,408 |
| Foreign currency exchange differences | **1,116,143** | 2,453,877 |
| **Total** | **5,626,047** | 7,772,050 |

29.4 During the year, a South African subsidiary and a Lebanese subsidiary recognised an impairment loss in value of KD Nil (2012: KD1,036,575) against certain properties under development based on the estimates made by the management as per information available to them about the recoverable sale value for these properties.

## 30. Capital work in progress

### 30.1 Capital work in progress consists of the following:

| | 31 Dec. 2013 | (Restated) 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| **Land cost:** | | |
| - The Trunk, Palm Jumeirah | - | 6,605,366 |
| - Crescent, Palm Jumeirah | - | 1,165,970 |
| - Golden Mile, Palm Jumeirah | - | 3,478,658 |
| - Kingdom of Sheeba Hotel | - | 6,377,856 |
| Construction pilling and enabling works | 335,065 | 46,637,212 |
| Other costs related to construction | - | 35,833,346 |
| **Total** | 335,065 | 100,098,408 |

### 30.2 The movement on capital work in progress is as follows:

| | 31 Dec. 2013 | (Restated) 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| **Land:** | | |
| Beginning balance | 14,985,209 | 14,985,209 |
| Transferred to investment properties (Note 26.3) | (7,616,332) | - |
| Transferred to property, plant and equipment (30.3 below) | (7,697,217) | - |
| Transferred from properties under development (Note 29.2) | 496,922 | - |
| Charged to cost of sales | (168,582) | - |
| Ending balance | - | 14,985,209 |
| **Development expenditure:** | | |
| Beginning balance | 85,533,872 | 68,034,821 |
| Additions during the year | 8,905,001 | 17,499,050 |
| Charged to cost of sales | (50,054) | - |
| Transferred to investment properties (Note 26.3) | (3,865,338) | - |
| Transferred to property, plant and equipment (30.3 below) | (92,741,353) | - |
| Transferred from properties under development (Note 29.2) | 1,892,918 | - |
| Ending balance | (324,954) | 85,533,871 |
| | | |
| Foreign currency exchange differences | 660,019 | (420,672) |
| **Total** | 335,065 | 100,098,408 |

30.3 During the year the UAE subsidiary transferred the total cost of construction of a completed hotel in UAE which amounted to KD100,438,570 (equivalents to AED 1,303M) from capital work in progress to Property, plant and equipment (note 31). The hotel has commenced commercial operations in 2013

## 31. Property, plant and equipment

| 31 December 2013 | Freehold land KD | Buildings on freehold land KD | Building on leasehold Land KD | Plant and equipment KD | Furniture and fixture KD | Motor vehicles KD | Yacht KD | Aircraft KD | Total KD |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| At 1 January 2013 | 704,382 | 20,427,121 | 9,570,125 | 1,678,274 | 5,997,752 | 268,616 | 1,386,106 | 3,954,045 | 43,986,421 |
| Additions during the year | - | 284,505 | 5,870 | 517,555 | 780,290 | 5,001 | - | - | 1,593,221 |
| Disposals during the year | - | - | - | (4,470) | (34,951) | (12,256) | (1,386,106) | (3,954,045) | (5,391,828) |
| Transferred from capital work in progress (below) | 6,326,508 | 89,243,184 | - | 2,222,409 | 2,646,469 | - | - | - | 100,438,570 |
| Foreign currency exchange adjustment | (121,606) | (2,658,746) | 21,799 | 258,473 | (2,423,171) | (81,868) | - | - | (5,005,119) |
| **At 31 December 2013** | **6,909,284** | **107,296,064** | **9,597,794** | **4,672,241** | **6,966,389** | **179,493** | **-** | **-** | **135,621,265** |
| **Depreciation** | | | | | | | | | |
| At 1 January 2013 | - | 2,006,511 | 2,232,368 | 1,531,942 | 2,963,242 | 211,994 | 878,682 | 449,058 | 10,273,797 |
| Charge for the year | - | 1,505,419 | 490,627 | 603,220 | 729,108 | 13,607 | 138,610 | - | 3,480,591 |
| Relating to disposals | - | - | - | (4,470) | (11,722) | (1,851) | (1,017,292) | (449,058) | (1,484,393) |
| Foreign currency exchange adjustment | - | (241,324) | (195,240) | (95,756) | (586,157) | (75,194) | - | - | (1,193,671) |
| **At 31 December 2013** | **-** | **3,270,606** | **2,527,755** | **2,034,936** | **3,094,471** | **148,556** | **-** | **-** | **11,076,324** |
| **Net carrying amount** | | | | | | | | | |
| **At 31 December 2013** | **6,909,284** | **104,025,458** | **7,070,039** | **2,637,305** | **3,871,918** | **30,937** | **-** | **-** | **124,544,941** |

a) During the year the total cost of construction of a completed hotel in UAE which amounted to KD100,438,57 (equivalents to AED 1,303M) have been transferred from capital work in progress to property, plant and equipment (note 30.3).

b) The group recognised an impairment loss amounting to KD Nil (KD3,202,371 in 2012) resulted from aircraft sale transactions, include in consolidated statement of income.

## 31. Property, plant and equipment

| | Freehold Land | Buildings on freehold land | Building on leasehold land | Plant and equipment | Furniture and fixture | Motor vehicles | Yacht | Aircraft | Total |
|---|---|---|---|---|---|---|---|---|---|
| **31 December 2012 (Restated)** | **KD** | **KD** | **KD** | **KD** | **KD** | **KD** | **KD** | **KD** | **KD** |
| **Cost** | | | | | | | | | |
| At 1 January 2012 | 710,826 | 20,462,394 | 9,412,927 | 1,678,297 | 5,923,011 | 283,971 | 1,386,106 | 7,156,416 | 47,013,948 |
| Additions during the year | - | - | 4,491 | 19,502 | 157,485 | - | - | - | 181,478 |
| Disposals during the year | - | (10,088) | - | (7,164) | (83,125) | (16,465) | - | - | (116,842) |
| Impairment loss | - | - | - | - | - | - | - | (3,202,371) | (3,202,371) |
| Foreign currency exchange adjustment | (6,444) | (25,185) | 152,707 | (12,361) | (44,883) | 1,110 | - | - | 64,944 |
| **At 31 December 2012** | 704,382 | 20,427,121 | 9,570,125 | 1,678,274 | 5,952,488 | 268,616 | 1,386,106 | 3,954,045 | 43,941,157 |
| | | | | | | | | | |
| **Depreciation** | | | | | | | | | |
| At 1 January 2012 | - | 1,626,118 | 1,891,401 | 1,433,082 | 2,492,226 | 213,076 | 774,249 | 377,493 | 8,807,645 |
| Charge for the year | - | 399,540 | 324,661 | 78,610 | 511,012 | 778 | 104,433 | 71,565 | 1,490,599 |
| Relating to disposals | - | - | - | - | (25,507) | (2,652) | - | - | (28,159) |
| Foreign currency exchange adjustment | - | (19,147) | 16,306 | 20,250 | (15,133) | 792 | - | - | 3,068 |
| **At 31 December 2012** | - | 2,006,511 | 2,232,368 | 1,531,942 | 2,962,598 | 211,994 | 878,682 | 449,058 | 10,273,153 |
| | | | | | | | | | |
| **Net carrying amount** | | | | | | | | | |
| **At 31 December 2012** | 704,382 | 18,420,610 | 7,337,757 | 146,332 | 2,989,890 | 56,622 | 507,424 | 3,504,987 | 33,668,004 |

Building on leasehold land comprises a hotel known as the "Zanzibar Beach Hotels and Resorts" leased to IFA Hotels & Resort 2 Limited. These buildings have been constructed on land leased from the Zanzibar Revolutionary Government. The lease period commenced on 2 November 2000 for an initial lease term of 33 years.

## 32. Payables and other credit balances

| | 31 Dec. 2013 | (Restated) 31 Dec. 2012 |
|---|---|---|
| | **KD** | KD |
| Accrued interest payable | **7,204,202** | 5,240,835 |
| Accounts payable (a - below) | **23,991,138** | 13,725,862 |
| Dividends payable | **517,645** | 521,343 |
| Obligations against purchase of land (b - below) | **2,354,353** | 7,286,773 |
| Kuwait Foundation for the Advancement of Science | **2,475,903** | 2,391,320 |
| National Labour Support Tax | **7,693,399** | 7,458,445 |
| Zakat provision | **667,310** | 573,329 |
| Provision for end of service indemnity and leave | **2,429,335** | 1,572,853 |
| Deferred inco me | **1,849,464** | 1,807,143 |
| Accrued retention payable | **7,329,259** | 11,879,463 |
| Accrued construction costs | **6,306,953** | 4,677,906 |
| Redeemable preference shares | **2,831,270** | 2,993,455 |
| Refundable deposits on cancellation and resale of units | **2,373,357** | 2,792,981 |
| Land transfer fee payable | **1,147,342** | 1,689,720 |
| Provision for contingent liabilities - note 40 (a) | **73,966** | 73,966 |
| Provision for loans receivable | **1,556,000** | - |
| Other payables | **6,009,476** | 2,162,082 |
| | **76,810,372** | 66,847,476 |

(a) Accounts payable above included KD8,666,643 was conservatively recorded in favour of Tamweel PJSC, and as a contra account, the same amount was recorded as balance due from joint venture (Souq Residence) pending the final outcome of the underlying case[see note 22 (a) and 40 (b)].

(b) Liability towards purchase of land comprises of an amount due on purchase of plot of land in the Crescent area of the Palm Jumeirah, Dubai and a plot located at Jumeirah Lake in Dubai, and it is repayable as the following:

| | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|
| | **KD** | KD |
| Within one year | **2,354,353** | 4,954,833 |
| More than one year | **-** | 2,331,940 |
| | **2,354,353** | 7,286,773 |

## 33. Term loan from a related party

| Currency | Principal | From | To | Interest | 31 Dec. 2013 | 31 Dec. 2012 |
|---|---|---|---|---|---|---|
| | **KD** | | | | **KD** | KD |
| KD | 9,943,636 | | | 7% | **-** | 9,943,636 |

The term loan was fully settled by the subsidiary company (IFA Hotels & Resorts – KPSC) to its related party as a part settlement of share capital increased in that company occurred during the year.

## 34. Borrowings

The loan balances and bank facilities of the group are represented at the date of the consolidated statement of financial position by the following:

| | Currency | Period due From | Period due To | Effective interest rates | Purpose | Assets pledged | 31 Dec. 2013 | (Restated) 31 Dec. 2012 |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | **KD** | KD |
| 1 | USD | 28-12-2005 | 28-12-2019 | 3.06% | Financing the group's investments | Shares of parent company and IFA H& R shares | **33,999,000** | 33,783,000 |
| 2 | EUR | 15-06-2007 | 28-12-2019 | 2.98% | Financing the group's investments | Shares of IFA H& R and an AFS investment | **7,699,924** | 7,467,732 |
| 3 | KD | 26-06-2012 | 30-06-2019 | 4.75% | Repayment of indebtedness | Local portfolio with 120% coverage | **25,000,000** | 25,000,000 |
| 4 | KD | 05-01-2012 | 31-12-2015 | 3.75% | Local Equity financing | Financial portfolio with 200% coverage | **8,555,000** | 20,000,000 |
| 5 | USD | 26-07-2007 | 26-07-2015 | 2% + Libor | Purchase of aircraft | Fully settled during 2013 | **-** | 3,075,661 |
| 6 | KD | 16-06-2012 | 15-03-2015 | 4.5% | Local equity financing | Fully settled during 2013 | **-** | 6,000,000 |
| 7 | AED | 01-05-2007 | 30-04-2015 | 5% - 12% | Projects financing | Properties located in Palm Jumeirah, U.A.E and collections deposited in account opened in a foreign bank | **64,844,950** | 63,121,597 |
| 8 | Rand | 23/05/2007 | 21/05/2017 | 4% - 11.5% | Financing the group's investments | Mortgage of certain property, plant and equipment and certain trading properties in South Africa subsidiaries | **15,152,924** | 17,220,226 |
| 9 | USD | 15/05/2008 | 15/06/2018 | 4% - 11.5% | Financing the group's investments | Fully settled during 2013 | **-** | 2,256,272 |
| 10 | USD | 01/01/2010 | 31/12/2016 | 8.5% | Acquisition of properties | Land included in properties under development | **3,195,678** | 2,259,344 |
| 11 | EUR | 15/09/2011 | 15/03/2024 | 6.5% | Acquisition of properties | Investment properties owned by the subsidiary | **6,460,749** | 6,557,231 |
| 12 | GBP | 01/08/2008 | 31/07/2018 | 5% | Financing the group's investments | Assets of Yotel Airports Limited | **353,537** | 412,590 |
| | | | | | | | **165,261,762** | 187,153,653 |

## 35. Advances received from customers (Restated)

These balances represent amounts collected in advance from customers of a subsidiary company of the group on the sale of residential flats currently under construction by the group. Advances from those customers are transferred to income upon completion of the construction of the sold unit and handing it over to the customer.

## 36. Share capital, share premium and treasury shares

**Share capital**

The authorised and paid up share capital of the parent company as at 31 December 2013 comprised of 720,000,000 shares of 100 Fils each, all issued and fully paid (2012: 720,000,000 shares of 100 Fils each).

**Share premium**

Share premium is not available for distribution, unless otherwise stipulated by local laws.

**Treasury shares**

| | 31 Dec. 2013 | | | 31 Dec. 2012 | | |
|---|---|---|---|---|---|---|
| | Number of shares | | Market Value | Number of shares | | Market Value |
| | | % | KD | | % | KD |
| Balance at beginning of the year | 49,513,128 | 6.88 | 2,153,821 | 49,649,248 | 6.90 | 1,961,145 |
| Net movement | - | | - | (136,120) | | - |
| Balance at end of the year | 49,513,128 | 6.88 | 4,852,287 | 49,513,128 | 6.88 | 2,153,821 |

Reserves of the parent company equivalent to the cost of treasury shares have been earmarked as non-distributable.

## 37. Statutory and Voluntary reserves

In accordance with the Companies Law and the parent company's Articles of Association, 10% of the profit for the year attributable to the owners of the parent company (before contribution to KFAS, National Labour Support tax, Zakat and board of directors' remuneration) is transferred to statutory reserve. The parent company may resolve to discontinue such annual transfer when the reserve becomes equivalent to 50% of the paid up share capital.

Distribution of the reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when accumulated profits are not sufficient for the payment of a dividend of that amount.

The parent company's articles of association requires that 10% of the profit for the year attributable to the owners of the parent company (before contribution to KFAS, National Labour Support tax, Zakat and board of directors' remuneration) should be transferred to a voluntary reserve.

No transfers are required in a year when losses are made.

## 38. Fiduciary accounts

These accounts include balances of investment portfolios and term deposits with the total amount of KD77,343,907 (2012: KD81,929,620) which are held by the group on behalf of its customers as margin guarantees against customer obligations for activities related to trading

## 39. Proposed dividends

Subsequent to date of the consolidated statement of financial position, the board of directors have proposed not to distribute any dividends for year ended 31 December 2013. This proposal is subject to the approval of the parent company's shareholders at the annual general assembly.

On 22 May 2013, the shareholders' general assembly approved the consolidated financial statements for the year ended 31 December 2012 and not to distribute any dividends for the year then ended.

## 40. Contingent liabilities

(a) In 1993, the liquidator of a bank in Bahrain filed a legal case in Ajman (United Arab Emirates) against the parent company and Gulf Group for Industrial Projects, claiming an amount of US$ 27,714,944 representing the balance of debt due from a third party. Two court decisions were issued by the Court of First Instance in favour of the parent company during 1995 and 1996, in addition to an appeal court decision issued in 1998 in favour of the parent company by that court, rejecting the aforementioned appeal, and supporting the decision issued by the Court of First Instance in favour of the parent company.

On 25 January 2006 a court order was issued requesting the payment of KD1,788,944 (AED22,431,145) from Gulf Group for Industrial Projects (the other party) and International Financial Advisors (parent company), jointly, being the principal amount of the debt to 29 April 1985 plus an amount of KD3,272,312 (AED41,032,903) interest on that amount from 29 April 1985 to the date of the court case on 12 August 1993. The parent company has provided for its share of principal and interest as ruled by the court for a total amount of KD5,061,256 during the year 2005.

During the year 2007, the parent company also provided an amount of KD1,815,219 (AED 29,041,265) as interest for the period from 13 August 1993 to 31 December 2007.

The Court of Appeal of Ajman has released its final judgement in favour of a bank against the parent company and other related company jointly to pay a total amount of USD27 Million to that bank and the judgement has become implementable. Accordingly, the parent company increased its provision for contingent liabilities against that case by KD581,987 during the first quarter of year 2011 to cover its share of loss resulting from this judgement. Subsequently, the parent company paid an amount of KD7,384,496 during the second quarter of 2011 as a settlement of this liability, and so the remaining outstanding balance of this liability become KD73,966 (Note 32).

(b) During the year 2010 a master property developer (Nakheel) initiated legal proceedings for claim of KD8,666,643 (AED111.4 Million) against a joint venture formed by a UAE subsidiary (Souq Residence)with another party. Whereas the joint venture lodged a counter claim of KD71,615,247 (AED920 Million ), against this developer for the sale of commercial plot of the Golden Mile Project.

Certain other customers have also initiated legal proceeding against UAE subsidiary for the delay in completion of its projects and cancellation of units.

Since these litigations are still in the preliminary stage, the probable outcome cannot be estimated reliably. However, the Group management is of the view that these cases will ultimately be decided in favour of the Group.

The above claim amount KD8,666,643 was conservatively recorded as balance due from related party [note 22 (a)] and the same amount was recorded as contra account in accounts payable (note 32) pending finalization of this case.

## 41. Capital Commitments

**Capital expenditure commitments**

At 31 December 2013, the group was committed to invest in the additional anticipated funding required to build several real estate projects in Dubai – UAE , Beirut –Lebanon, South Africa and U.S.A. The group's share in the estimated funding commitments on these projects is as follows:

| | **31 Dec. 2013** | 31 Dec. 2012 |
|---|---|---|
| | **KD** | KD |
| Estimated and contracted capital expenditure for construction of properties under development and trading properties | **36,681,000** | 37,177,000 |

The group expects to finance the future expenditure commitments from the following sources:

a) sale of investment properties;
b) advances from customers;
c) raising additional share capital;
d) advances provided by the shareholders, related entities, joint ventures; and
e) borrowings, if required.

Expected financing rates from the above sources are dependent on the source of financing and management estimates of the best financing available at the time they become due.

## 42. Segmental information

The Group activities are concentrated in four main segments: asset management, treasury and investments, real estate and others. The segments' results are reported to the higher management in the Group. In addition, the segments revenue, assets are reported based on the geographic locations which the Group operates in.

The following is the segments information, which conforms with the internal reporting presented to management.

| | Asset Management | | Treasury and Investments | | Real Estate | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **31 Dec. 2013** | (Restated) 31 Dec. 2012 | **31 Dec. 2013** | (Restated) 31 Dec. 2012 | **31 Dec. 2013** | (Restated) 31 Dec. 2012 | **31 Dec. 2013** | (Restated) 31 Dec. 2012 | **31 Dec. 2013** | (Restated) 31 Dec. 2012 |
| | **KD '000** | KD '000 | **KD '000** | KD '000 | **KD '000** | KD '000 | **KD '000** | KD '000 | **KD '000** | KD '000 |
| Segment income/(loss) | **2,067** | 806 | **(5,542)** | (1,022) | **56,593** | 7,317 | **(2,117)** | 1,476 | **51,001** | 8,577 |
| **Segment (loss)/profit for the year** | **(1,414)** | (685) | **(22,766)** | (15,846) | **56,593** | 6,280 | **(29,487)** | (14,644) | **2,926** | (24,895) |
| Depreciation | | | | | | | | | **3,481** | 1,491 |
| Impairment | | | | | | | | | **10,858** | 10,650 |
| Reversal of excess provision on related party balances | | | | | | | | | **(5,843)** | - |
| Written off balances | | | | | | | | | **4,831** | 1,587 |
| **Statement of financial position** | | | | | | | | | | |
| Total segmental assets | **125,638** | 37,063 | **143,658** | 171,601 | **215,625** | 293,343 | **-** | - | **484,921** | 502,007 |
| Total segmental liabilities | **-** | - | **(165,262)** | (197,097) | **(123,996)** | (136,198) | **-** | - | **(289,258)** | (333,295) |
| **Net segmental assets** | **125,638** | 37,063 | **(21,604)** | (25,496) | **91,629** | 157,145 | **-** | - | **195,663** | 168,712 |
| Unallocated assets | | | | | | | | | **31,379** | 19,136 |
| Unallocated liabilities | | | | | | | | | **(100,180)** | (84,929) |
| **Net Assets** | | | | | | | | | **126,862** | 102,919 |

## 43. Related parties transactions

These represent transactions with related parties that is shareholders, directors and senior management of the parent company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the parent company's management.

Transactions with related parties included in the consolidated financial statements are as follows:

| | 31 Dec. 2013 | (Restated) 31 Dec. 2012 |
|---|---|---|
| | KD | KD |
| **Balances included in the consolidated statement of financial position:** | | |
| Amounts due from related parties (Note 22) | **12,878,614** | 2,938,391 |
| Amounts due to related parties (Note 22) | **23,369,522** | 18,081,442 |
| Term loan from a related party (Note 33) | **-** | 9,943,636 |
| **Transactions included in the consolidated statement of income:** | | |
| Interest and similar expenses | **-** | (56,359) |
| Interest and similar income | **34,366** | 28,008 |
| Advisory services - note 22 (b) | **1,301,682** | - |
| Gain/(loss) on sale of available for sale investments | **667,621** | (267,048) |
| Gain on sale of investments at fair value through profit or loss | **-** | 17,009 |
| Write back provision for amounts due from related parties - note 22 (a) | **5,843,057** | - |
| Write off of due from related party balances - note 22 (c) | **(4,830,999)** | (1,586,605) |
| **Key management compensation of the group:** | | |
| Short-term benefits | **785,072** | 602,407 |

Related party balances outstanding at year end due to funds transfer are included under amounts due from related parties and amount due to related parties (Note 22).

## 44. Summary of financial assets and liabilities by category and fair value measurement

### 44.1 Categories of financial assets and liabilities

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

| | 31 Dec. 2013 | (Restated) 31 Dec. 2012 |
|---|---|---|
| | **KD'000** | KD'000 |
| **Financial assets:** | | |
| Cash and cash equivalents | **5,705** | 14,015 |
| Investments at fair value through profit or loss | **3,563** | 5,999 |
| Receivables and other debt balances | **18,500** | 16,198 |
| Loans receivable | **1,093** | 3,395 |
| Due from related parties | **12,879** | 2,938 |
| Available for sale investments | **34,065** | 45,250 |
| | **75,805** | 87,795 |
| **Financial liabilities:** | | |
| Payables and other credit balances | **76,810** | 66,847 |
| Due to related parties | **23,370** | 18,081 |
| Term loan from a related party | **-** | 9,944 |
| Borrowings | **165,262** | 187,154 |
| Advances received from customers | **123,996** | 136,198 |
| | **389,438** | 418,224 |

## 44. Summary of financial assets and liabilities by category and fair value measurement (continued)

### 44.1 Categories of financial assets and liabilities (continued)

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

| | 31 Dec. 2013 | | (Restated) 31 Dec. 2012 | |
|---|---|---|---|---|
| | **Fair value KD'000** | **Carrying value KD'000** | Fair value KD'000 | Carrying value KD'000 |
| Financial assets | | | | |
| Cash and cash equivalents | **-** | **5,705** | - | 14,015 |
| Investments at fair value through profit or loss | **3,331** | **232** | 5,749 | 250 |
| Receivables and other debt balances | **-** | **18,500** | - | 16,198 |
| Loans receivable | **-** | **1,093** | - | 3,395 |
| Due from related parties | **-** | **12,879** | - | 2,938 |
| Available for sale investments | **22,653** | **11,412** | 33,165 | 12,085 |
| | **25,984** | **49,821** | 38,914 | 48,881 |
| Financial liabilities | | | | |
| Payables and other credit balances | **-** | **76,810** | - | 66,847 |
| Due to related parties | **-** | **23,370** | - | 18,081 |
| Term loan from a related party | **-** | **-** | - | 9,944 |
| Borrowings | **-** | **165,262** | - | 187,154 |
| Advances received from customers | **-** | **123,996** | - | 136,198 |
| | **-** | **389,438** | - | 418,224 |

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments at fair value though profit or loss and available for sale investments (excluding certain available for sale investments which are carried at cost/cost less impairment for reasons specified in note (25.1) to the consolidated financial statements) are carried at fair value. In the opinion of the group's management, the carrying amounts of all other financial assets and liabilities which are at amortised costs is considered a reasonable approximation of their fair values.

### 44.2 Fair value measurement

The Group measures financial instruments, such as investments and non financial assets such as investment properties at fair value at each balance sheet date. Also fair values of financial instruments measured at amortised costs are disclosed in note (44.5).

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## 44. Summary of financial assets and liabilities by category and fair value measurement (continued)

### 44.3 Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

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

**31 December 2013**

| | Note | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| | | KD'000 | KD'000 | KD'000 | KD'000 |
| **Investments at fair value through profit or loss** | | | | | |
| Investments held for trading: | | | | | |
| Local: | | | | | |
| Quoted securities and managed funds | a + b | 1,469 | - | - | 1,469 |
| Foreign: | | | | | |
| Quoted securities | a + b | 1,862 | - | - | 1,862 |
| **Available for sale investments** | | | | | |
| Quoted securities | a | 3,896 | - | - | 3,896 |
| Managed funds | b | - | 1,069 | - | 1,069 |
| Unquoted securities | d | - | - | 17,688 | 17,688 |
| **Net fair value** | | 7,227 | 1,069 | 17,688 | 25,984 |

## 44. Summary of financial assets and liabilities by category and fair value measurement (continued)

### 44.3 Fair value hierarchy (continued)

**31 December 2012**

| | Note | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| | | KD'000 | KD'000 | KD'000 | KD'000 |
| **Investments at fair value through profit or loss** | | | | | |
| Investments held for trading | | | | | |
| Local: | | | | | |
| Quoted securities and managed funds | a + b | 1,865 | - | - | 1,865 |
| Foreign: | | | | | |
| Quoted securities | a + b | 3,884 | - | - | 3,884 |
| **Available for sale investments** | | | | | |
| Quoted securities | a | 3,922 | - | - | 3,922 |
| Managed funds | b | - | 1,307 | - | 1,307 |
| Unquoted securities | d | - | - | 27,936 | 27,936 |
| **Net fair value** | | 9,671 | 1,307 | 27,936 | 38,914 |

### 44.4 Measurement at fair value

The group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximizing the use of market-based information.

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

**Financial instruments in level 1**

**a) Quoted Securities (level 1)**

All the listed equity securities are publicly traded on a recognized stock exchange. Fair value has been determined by referring to their quoted bid prices at the reporting date.

**Financial instruments in level 2 & 3**

**b) Local managed funds (level 2)**

The underlying investments in local managed funds primarily comprise of local quoted securities whose fair values has been determined by reference to their quoted bid prices at the reporting date.

## 44. Summary of financial assets and liabilities by category and fair value measurement (continued)

### 44.4 Measurement at fair value (continued)

**c) Foreign managed funds (level 3)**

The underlying investments of foreign managed funds primarily comprise of foreign quoted and unquoted securities. The fair value of the quoted underlying securities has been determined by reference to their quoted bid prices at the reporting date. The fair value of the unquoted underlying securities has been determined using valuation techniques that are normally used by Fund Managers. All significant inputs into the model are based on observable market prices

**d) Unquoted securities (level 3)**

Unlisted securities are measured at fair value estimated -using various models like discounted cash flow model, which includes some assumptions that are not supportable by observable market prices or rates.

### 44.5 Level 3 fair value measurements

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

| | **Available for sale Investments** |
|---|---|
| | **KD'000** |
| 31 December 2013 | |
| Opening balance | **27,936** |
| Purchases | **1,524** |
| Sales | **(10,784)** |
| Gains or losses recognised in: | |
| Other comprehensive income | **(988)** |
| **Closing balance** | **17,688** |

### 44.5 Level 3 fair value measurements (continued)

| | Available for sale Investments |
|---|---|
| | KD'000 |
| 31 December 2012 | |
| Opening balance | 20,268 |
| Purchases | 138 |
| Sales | (403) |
| Gains or losses recognised in: | |
| Other comprehensive income | 7,933 |
| Closing balance | 27,936 |

The group use discounted cash flow method to value most significant unobservable inputs in level 3.

## 44. Summary of financial assets and liabilities by category and fair value measurement (continued)

### 44.6 Fair value measurement of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis:

| | Level 1 KD'000 | Level 2 KD'000 | Level 3 KD'000 | Total KD'000 |
|---|---|---|---|---|
| **31 December 2013** | | | | |
| **Investment properties** | | | | |
| Land in Jordan | - | - | 402 | 402 |
| Land in UAE | - | - | 463 | 463 |
| Apartments in Dubai – UAE | - | - | 344 | 344 |
| Apartments in Portugal | - | - | 9,380 | 9,380 |
| Crescent Palm Jumeirah (freehold land in the Crescent area) & Kingdom of Sheba (KOS) Vacation Club | - | - | 45,565 | 45,565 |
| | - | - | 56,154 | 56,154 |

| | Level 1 KD'000 | Level 2 KD'000 | Level 3 KD'000 | Total KD'000 |
|---|---|---|---|---|
| 31 December 2012 | | | | |
| Investment properties | | | | |
| Land in Jordan | - | - | 402 | 402 |
| Land in UAE | - | - | 414 | 414 |
| Apartments in Dubai – UAE | - | - | 298 | 298 |
| Apartments in Portugal | - | - | 8,943 | 8,943 |
| Crescent Palm Jumeirah (freehold land in the Crescent area) & Kingdom of Sheba (KOS) Vacation Club | - | - | 18,017 | 18,017 |
| | - | - | 28,074 | 28,074 |

The fair value of the investment property has been determined based on valuations obtained from two independent valuers, who are specialised in valuing these types of investment properties. The significant inputs and assumptions are developed in close consultation with management. For the valuation purpose, the Company has selected the lower value of the two valuations (2012: lower of two valuations). Further information regarding the level 3 fair value measurements is set out below:

**Land in Jordan**

***Basis of valuations:*** Direct comparison approach having regard to market transactional evidence known to the valuer and having regarded to plot sales as reported by the Jordan Land Department.

**Land in UAE**

***Basis of valuations:*** Direct comparison approach having regard to market transactional evidence known to the valuer and having regarded to plot sales as reported by the Dubai Land Department.

## 44. Summary of financial assets and liabilities by category and fair value measurement (continued)

### 44.6 Fair value measurement of non-financial assets (continued)

**Apartments in Dubai – UAE**

***Basis of valuations:*** Comparable method. In determining the gross development value (GDV) of the proposed development we have used comparable method, which utilizes the evidence of transactions or current asking prices of similar properties in the immediate vicinity and, if appropriate, applies adjustment to the figures based on market research, discussion with independent agents and in some cases, developers and / or construction companies

**Apartments in Portugal**

***Basis of valuations:*** Market comparison approach. The method of comparison is to relate the value of a property with data, relating to the transaction of properties with similar characteristics or comparable. The use of this method in this evaluation study served as a reference parameter to use the data collected directly from the market, providing an objective and indicator values assessment. The method performs a comparison stratification of the data collected to be homogeneous in order to allow comparison and determine which features most relevant. Data are collected from several sources from the Real Estate Market.

**Crescent Palm Jumeirah (freehold land in the Crescent area) –Dubai**

***Basis of valuations:*** Residual approach. To derive the market of the subject property we have used the residual approach. The residual approach involves the calculation of the Gross development value (GDV) of the property as completed using the income approach. The costs of construction including soft costs, professional fees, contingency, finance costs, legal fees and developers profit are deducted from the GDV to arrive at a residual value of the property. The residual valuation is carried out when there is lack of comparable evidence of similar properties.

**Kingdom of Sheba (KOS) Vacation Club- Dubai**

***Basis of valuations:*** compable and residual method of valuation.

In determining the gross development value (GDV) of the proposed development we have used comparable method, which utilizes the evidence of transactions or current asking prices of similar properties in the immediate vicinity and, if appropriate, applies adjustment to the figures based on market research, discussion with independent agents and in some cases, developers and / or construction companies.

Residual Method

1. Gross development value.
2. Less: all costs of development profits
3. Equals: Residual land value

## 44. Summary of financial assets and liabilities by category and fair value measurement (continued)

**44.6 Fair value measurement of non-financial assets (continued)**

The non-financial assets within this level can be reconciled from beginning to ending balances as follows:

| | **Investment properties Total** |
|---|---|
| | **KD'000** |
| **31 December 2013** | |
| Opening balance | **28,074** |
| Transferred from capital work in progress | **11,482** |
| Transferred to properties under development | **(23,125)** |
| Gains or losses recognised in consolidated statement of income: | |
| Change in fair value of investment property | **38,778** |
| Exchange differences on translation | **955** |
| Closing balance | **56,164** |
| | |
| Total amount included in profit or loss for unrealised gains on Level 3 assets | **38,778** |

| | Investment properties Total |
|---|---|
| | KD'000 |
| 31 December 2012 | |
| Opening balance | 29,094 |
| Gains or losses recognised in consolidated statement of income: | |
| Change in fair value of investment property | (607) |
| Exchange differences on translation | (413) |
| Closing balance | 28,074 |
| | |
| Total amount included in profit or loss for unrealised gains on Level 3 assets | (607) |

## 45. Risk management objectives and policies

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

The group's risk management is carried out by the central risk management function and focuses on actively securing the group's short to medium term cash flows by minimizing the potential adverse effects on the group's financial performance through internal risk reports which analyse exposures by degree and magnitude of risks. Long term financial investments are managed to generate lasting returns.

The board of directors of the parent company is ultimately responsible for setting out risk strategies and objectives and policies for their management.

The most significant financial risks to which the group is exposed to are described below.

## 45. Risk management objectives and policies (continued)

### 45.1 Market risk

**a) Foreign currency risk management**

The group mainly operates in the GCC, South Africa and other Middle Eastern countries and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to UAE Dirhams, Euro, South Africa Rand, Sterling Pound and US Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored and forward exchanged contracts are entered into in accordance with the group's risk management policies. Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Where the amounts to be paid and received in specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward foreign contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

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

| | **31 Dec. 2013<br>KD'000** | 31 Dec. 2012<br>KD'000 |
|---|---|---|
| UAE Dirhams | **(87,928)** | (89,780) |
| Euro | **(13,191)** | (13,117) |
| South African Rand | **(18,982)** | (17,599) |
| Sterling Pound | **(2,116)** | (1,423) |
| US Dollar | **(48,511)** | (53,281) |

If the Kuwaiti Dinar had strengthened/weakened against the foreign currencies assuming the sensitivity given in the table below, then this would have the following impact on the profit/(loss) for the year:

## 45. Risk management objectives and policies (continued)

**45.1 Market risk (continued)**

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

| | 31 Dec. 2013 | | 31 Dec. 2012 | |
|---|---|---|---|---|
| | Inc/(Dec) % | Profit/(loss) for the year KD'000 | Inc/(Dec) % | Profit/(loss) for the year KD'000 |
| UAE Dirhams | +0.41 | +362 | +1.2 | +1,075 |
| | -0.41 | -362 | -1.2 | -1,075 |
| Euro | +0.59 | +78 | +3.38 | +443 |
| | -0.59 | -78 | -3.38 | -443 |
| SouthAfrican Rand | +20.91 | +3,969 | +2.28 | +401 |
| | -20.91 | -3,969 | -2.28 | -401 |
| Sterling Pound | +2.36 | +50 | +5.19 | +74 |
| | -2.36 | -50 | -5.19 | -74 |
| US Dollar | +0.34 | +163 | +1.23 | +653 |
| | -0.34 | -163 | -1.23 | -653 |

The above percentages have been determined based on the average foreign exchange rates in the previous twelve months.

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

**b) Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

Provisions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

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

## 45. Risk management objectives and policies (continued)

### 45.1 Market risk (continued)

**Interest rate sensitivity analysis**

The following table illustrates the sensitivity of the profit / (loss) for the year to a reasonably possible change in interest rates of + 1% and – 1% (2012: + 1% and –1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition. The calculations are based on the group's financial instruments held at each date of the consolidated statement of financial position. All other variables are held constant.

| | **31 Dec. 2013** | | 31 Dec. 2012 | |
|---|---|---|---|---|
| | **+ 1 %** | **-1 %** | + 1 % | -1 % |
| | **KD'000** | **KD'000** | KD'000 | KD'000 |
| Profit/(loss) for the year | **(1,572)** | **1,572** | (1,768) | 1,768 |

**c) Equity price risk**

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The group is exposed to equity price risk with respect to its listed equity investments which are primarily located in Kuwait, UK, USA, Portugal, Saudi Arabia and Dubai. Equity investments are classified either as "investments at fair value through profit or loss" or "available for sale investments".

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

The equity price risk sensitivity is determined on the exposure to equity price risks at the reporting date. If equity prices had been 10% higher/lower, the effect on the loss for the year and other comprehensive income for the year ended 31 December would have been as follows:
A positive number below indicates a increase profit/(decrease in loss) and other comprehensive income where the equity prices increase by 10%. All other variables are held constant.

| | Profit / (loss) for the year | | Other comprehensive income | |
|---|---|---|---|---|
| | **31 Dec. 2013** | 31 Dec. 2012 | **31 Dec. 2013** | 31 Dec. 2012 |
| | **KD '000** | KD '000 | **KD '000** | KD '000 |
| Investments at fair value through profit or loss | **777** | 575 | **-** | - |
| Available for sale investments | **-** | - | **952** | 209 |
| | **777** | 575 | **952** | 209 |

For a 10% decrease in the equity prices there would be an equal and opposite impact on the losses for the years and other comprehensive income and the amounts shown above would be negative.

## 45. Risk management objectives and policies (continued)

### 45.2 Credit risk

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

The loans receivable consist mainly of margin loans, ongoing credit valuation is performed on financial conditions of these receivables where appropriate coverage of collaterals is monitored. The credit risk on liquid funds is limited because the counterparties are the banks with high credit-rating assigned by international credit rating agencies.

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

| | **31 Dec. 2013** | (Restated) 31 Dec. 2012 |
|---|---|---|
| | **KD '000** | KD '000 |
| Cash and cash equivalents | **5,705** | 14,015 |
| Investments at fair value through profit or loss | **3,563** | 5,999 |
| Receivables and other debt balances | **18,500** | 16,198 |
| Loans receivable | **1,093** | 3,395 |
| Due from related parties | **12,879** | 2,938 |
| Available for sale investments | **34,065** | 45,250 |
| | **75,805** | 87,795 |

## 45. Risk management objectives and policies (continued)

### 45.3 Concentration of assets

The group operates in different geographical areas. The distribution of financial assets by geographic region is as follows:

| | GCC<br>KD'000 | Asia<br>KD'000 | Africa<br>KD'000 | Europe<br>KD'000 | USA<br>KD'000 | Total<br>KD'000 |
|---|---|---|---|---|---|---|
| At 31 December 2013 | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | 4,414 | 527 | 422 | 305 | 37 | 5,705 |
| Investments at fair value through profit or loss | 1,701 | - | - | 1,862 | - | 3,563 |
| Receivables and other debit balances | 13,152 | 162 | 2,553 | 1,261 | 1,372 | 18,500 |
| Loans receivable | 1,093 | - | - | - | - | 1,093 |
| Due from related parties | 12,431 | 338 | 91 | 19 | - | 12,879 |
| Available for sale investments | 15,690 | 308 | 1,316 | 4,593 | 12,158 | 34,065 |
| Total assets | 48,481 | 1,335 | 4,382 | 8,040 | 13,567 | 75,805 |
| At 31 December 2012 (Restated) | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | 12,064 | 548 | 967 | 258 | 178 | 14,015 |
| Investments at fair value through profit or loss | 2,115 | - | - | 3,884 | - | 5,999 |
| Receivables and other debit balances | 8,314 | 192 | 4,805 | 1,390 | 1,497 | 16,198 |
| Loans receivable | 3,395 | - | - | - | - | 3,395 |
| Due from related parties | 1,909 | 32 | 985 | 12 | - | 2,938 |
| Available for sale investments | 25,768 | 526 | 566 | 3,678 | 14,712 | 45,250 |
| Total assets | 53,565 | 1,298 | 7,323 | 9,222 | 16,387 | 87,795 |

### 45.4 Liquidity risk management

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements. The group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the group's financial liabilities based on the remaining period at the financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

## 45. Risk management objectives and policies (continued)

### 45.4 Liquidity risk management (continued)

| | Up to 1 year | From1 to 5 years | Total |
|---|---|---|---|
| | KD'000 | KD'000 | KD'000 |
| **31 December 2013** | | | |
| **Financial liabilities** | | | |
| Payables and other credit balances | **55,888** | **20,922** | **76,810** |
| Due to related parties | **23,370** | **-** | **23,370** |
| Borrowings | **23,232** | **142,030** | **165,262** |
| Advances received from customers | **-** | **123,996** | **123,996** |
| | **102,490** | **286,948** | **389,438** |
| 31 December 2012 (Restated) | | | |
| Financial liabilities | | | |
| Payables and other credit balances | 49,804 | 17,043 | 66,847 |
| Due to related parties | 18,081 | - | 18,081 |
| Term loan from a related party | 9,944 | - | 9,944 |
| Borrowings | 29,666 | 157,488 | 187,154 |
| Advances received from customers | - | 136,198 | 136,198 |
| | 107,495 | 310,729 | 418,224 |

## 46. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The group has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk. The management ensures compliance with policies and procedures and monitors operational risk as part of overall risk management.

## 47. Capital management objectives

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

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

The capital structure of the group consists of the following:

**Gearing ratio**

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

| | **31 Dec. 2013** | (Restated) 31 Dec. 2012 |
|---|---|---|
| | **KD'000** | KD'000 |
| Debt (a) | **165,262** | 197,097 |
| Cash and cash equivalents | **(5,705)** | (14,015) |
| Net debt | **159,557** | 183,082 |
| Equity (b) | **126,862** | 102,919 |
| Net debt to equity ratio | **126%** | 178% |

(a) Debt is defined as long and short term borrowings.
(b) Equity includes all capital and reserves of the group.

## 48. Comparative figures

Comparative figures have been restated due to adoption of IFRS11 (note 27). Further certain comparative amounts have been reclassified to conform with the presentation of the year. Such reclassification does not affect the consolidated financial information of the net assets, equity, and operation results for the previous year. Also it did not affect the net decrease in cash and cash equivalents for that year.

Accordingly, the financial statements for periods prior to year ended 31 December 2012 have not been presented.