

**AQAR REAL ESTATE INVESTMENT COMPANY- K.S.C. (CLOSED)  
AND SUBSIDIARIES  
STATE OF KUWAIT**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH  
INDEPENDENT AUDITORS' REPORT**

AQAR REAL ESTATE INVESTMENT COMPANY - K.S.C. (CLOSED)  
AND SUBSIDIARIES  
STATE OF KUWAIT

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2012  
WITH  
INDEPENDENT AUDITORS' REPORT

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## **INDEPENDENT AUDITORS' REPORT**

The Shareholders  
Aqar Real Estate Investment Company - K.S.C. (Closed)  
State of Kuwait

### **Report on the consolidated financial statements**

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

### **Management's responsibility for the consolidated financial statements**

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

### **Auditors' responsibility**

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

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



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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aqar Real Estate Investment Company - K.S.C. (Closed) and subsidiaries as of December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Other Matter**

The Parent Company's consolidated financial statements for the year ended December 31, 2011 were audited by other auditors whom issued an unqualified opinion for those consolidated financial statements on February 21, 2012.

**Report on other legal and regulatory requirements**

Also in our opinion, the consolidated financial statements include the disclosures required by the Companies Law No. (25) of 2012 and the Parent Company's Articles of Association, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Director's Report is in agreement with the Parent Company's books. According to the information available to us, there were no contraventions during the year ended December 31, 2012 of either the Companies Law No. (25) of 2012 or of the Parent Company's Articles of Association which might have materially affected the Group's financial position or results of its operations.

Ali Owaid Rukheyes  
Licence No. 72-A  
Member of the International Group  
of Accounting Firms

Dr. Shuaib A. Shuaib  
Licence No. 33-A  
RSM Albazie & Co.

State of Kuwait  
March 6, 2013

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**AQAR REAL ESTATE INVESTMENT COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2012**  
(All amounts are in Kuwaiti Dinars)

<u>ASSETS</u>	Note	2012	2011
Cash and cash equivalents	3	5,870,197	3,762,839
Other debit balances	4	183,241	45,468
Investments available for sale	5	2,835,958	3,568,816
Investments in associates	6	4,738,899	4,650,918
Investment properties	7	10,602,000	12,791,975
Property and equipment		16,127	20,154
Total assets		<u>24,246,422</u>	<u>24,840,170</u>
<u>LIABILITIES AND EQUITY</u>			
<u>Liabilities</u>			
Term loan	8	30,000	2,730,000
Provision for end of service indemnity	9	12,859	90,343
Accounts payable and other credit balances	10	432,187	317,040
Total liabilities		<u>475,046</u>	<u>3,137,383</u>
<u>Equity</u>			
Share capital	11	23,425,000	23,425,000
Share premium	12	227,567	227,567
Treasury shares	13	(481,746)	(296,644)
Treasury shares reserve		8,523	8,523
Statutory reserve	14	608,572	608,572
Voluntary reserve	15	608,572	608,572
Cumulative change in fair value		46,236	12,023
Accumulated losses		(697,694)	(2,932,242)
Equity attributable to Parent Company's shareholders		<u>23,745,030</u>	21,661,371
Non-controlling interests		26,346	41,416
Total equity		<u>23,771,376</u>	21,702,787
Total liabilities and equity		<u>24,246,422</u>	<u>24,840,170</u>

The accompanying notes (1) to (27) form an integral part of the consolidated financial statements

  
Mousa Ali Abou Taleb  
Chairman and Managing Director

  
Dr. Sulaiman Tareq Al Abdaljader  
Vice chairman

**AQAR REAL ESTATE INVESTMENT COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts are in Kuwaiti Dinars)

	Note	2012	2011
Real estates income	16	-	593,372
Rental income		434,276	222,749
Real estates operating expenses		(48,192)	(21,600)
Net real estate's income		386,084	794,521
Other income		35,037	12,246
Interest income		31,520	31,669
Bad debts		-	(152,252)
Realized gain (loss) from sale of investments available for sale		25,909	(30,671)
Impairment loss for investments available for sale		(127,796)	(1,100,995)
Dividend income		55,199	195,150
Group's share of results from associates	6	87,981	(229,825)
Impairment loss for investments in associates	6	-	(797,807)
Change in fair value of investment properties	7	22	(128,369)
Gains from sale of investment properties	7	2,165,742	-
Depreciation		(5,699)	(4,559)
General and administrative expenses	18	(294,263)	(321,712)
Finance charges		(32,930)	(168,774)
Foreign currency exchange		(57)	210
Profit (loss) for the year before National Labor Support Tax, Zakat Contribution and Board of Directors' remunerations		2,326,749	(1,901,168)
National Labor Support Tax	20	(55,697)	-
Contribution to Zakat	21	(21,574)	-
Board of Directors' remuneration	23	(30,000)	-
Net profit (loss) for the year		2,219,478	(1,901,168)
Attributable to:			
Shareholders of the Parent Company		2,218,306	(1,893,526)
Non-controlling interests		1,172	(7,642)
		2,219,478	(1,901,168)
Earnings (loss) per share	22	9.64	(8.18)

The accompanying notes (1) to (27) form an integral part of the consolidated financial statements

**AQAR REAL ESTATE INVESTMENT COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts are in Kuwaiti Dinars)

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Net profit (loss) for the year		<b>2,219,478</b>	(1,901,168)
Other comprehensive income:			
Change in fair value of investments available for sale		<b>46,236</b>	501,604
Transferred to consolidated statement of income for impairment of investments available for sale		-	(1,100,995)
Transferred to consolidated statement of income for sale of investments available for sale		<b>(12,023)</b>	(30,671)
Other comprehensive income (loss) for the year		<u><b>34,213</b></u>	<u>(630,062)</u>
Total comprehensive income (loss) for the year		<u><b>2,253,691</b></u>	<u>(2,531,230)</u>
Attributable to:			
Shareholders of the Parent Company		<b>2,252,519</b>	(2,523,588)
Non-controlling interests		<b>1,172</b>	(7,642)
Total comprehensive income (loss) for the year		<u><b>2,253,691</b></u>	<u>(2,531,230)</u>

The accompanying notes (1) to (27) form an integral part of the consolidated financial statements

**AQAR REAL ESTATE INVESTMENT COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

(All amounts are in Kuwaiti Dinars)

	Equity attributable to Parent Company's shareholders										
	Share capital	Share premium	Treasury shares	Treasury shares reserve	Statutory reserve	Voluntary reserve	Cumulative change in fair value	Accumulated losses	Total	Non-controlling interests	Total equity
Balance at December 31, 2010	23,425,000	227,567	(296,644)	8,523	608,572	608,572	642,085	(989,658)	24,234,017	-	24,234,017
Total comprehensive loss for the year	-	-	-	-	-	-	(630,062)	(1,893,526)	(2,523,588)	(7,642)	(2,531,230)
Net movement on non-controlling interests (a)	-	-	-	-	-	-	-	(49,058)	(49,058)	49,058	-
Balance at December 31, 2011	23,425,000	227,567	(296,644)	8,523	608,572	608,572	12,023	(2,932,242)	21,661,371	41,416	21,702,787
Total comprehensive income for the year	-	-	-	-	-	-	34,213	2,218,306	2,252,519	1,172	2,253,691
Purchase of treasury shares	-	-	(185,102)	-	-	-	-	-	(185,102)	-	(185,102)
Net movement on non-controlling interests (a)	-	-	-	-	-	-	-	16,242	16,242	(16,242)	-
<b>Balance at December 31, 2012</b>	<b>23,425,000</b>	<b>227,567</b>	<b>(481,746)</b>	<b>8,523</b>	<b>608,572</b>	<b>608,572</b>	<b>46,236</b>	<b>(697,694)</b>	<b>23,745,030</b>	<b>26,346</b>	<b>23,771,376</b>

a) Movement on non-controlling interests represents change in actual equity for Parent Company's subsidiaries.

The accompanying notes (1) to (27) form an integral part of the consolidated financial statements



**AQAR REAL ESTATE INVESTMENT COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(All amounts are in Kuwaiti Dinars)

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Profit (loss) for the year before National Labor Support Tax , Zakat		
Contribution and Board of Directors' remunerations	2,326,749	(1,901,168)
Adjustments:		
Interest income	(31,520)	(31,669)
Bad debts	-	152,252
Realized (gain) loss from sale of investments available for sale	(25,909)	30,671
Impairment loss for investments available for sale	127,796	1,100,995
Dividend income	(55,199)	(195,150)
Group's share of results from associates	(87,981)	229,825
Impairment loss for investments in associates	-	797,807
Change in fair value of investment properties	(22)	128,369
Gains from sale of investment properties	(2,165,742)	-
Depreciation	5,699	4,559
Finance charges	32,930	168,774
Foreign currency exchange	57	(210)
Provision for end of service indemnity	15,960	33,339
	<u>142,818</u>	<u>518,394</u>
Changes in operating assets and liabilities:		
Other debit balances	(136,393)	3,002,113
Accounts payable and other credit balances	7,879	(2,917)
Paid for purchase of investment properties	(3,038,325)	(1,278,850)
Proceeds from sale of investment properties	7,394,064	-
Cash generated from operating activities	<u>4,370,043</u>	<u>2,238,740</u>
End of service indemnity paid	(93,444)	-
Net cash generated from operating activities	<u>4,276,599</u>	<u>2,238,740</u>
<b>Cash flows from investing activities:</b>		
Interest income received	30,080	31,511
Payment for purchase of investments available for sale	(94,449)	(159,572)
Proceeds from sale of investments available for sale	759,633	71,922
Dividend income received	55,199	195,150
Payment for purchase of property and equipment	(1,672)	(10,542)
Net cash generated from investing activities	<u>748,791</u>	<u>128,469</u>
<b>Cash flows from financing activities:</b>		
Paid for term loan	(2,700,000)	(500,000)
Finance charges paid	(32,930)	(168,774)
Paid for purchase of treasury shares	(185,102)	-
Net cash used in financing activities	<u>(2,918,032)</u>	<u>(668,774)</u>
Net increase in cash and cash equivalents	2,107,358	1,698,435
Cash and cash equivalents at the beginning of the year	3,762,839	2,064,404
Cash and cash equivalents at the end of the year (Note 3)	<u>5,870,197</u>	<u>3,762,839</u>

The accompanying notes (1) to (27) form an integral part of the consolidated financial statements

**AQAR REAL ESTATE INVESTMENT COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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(All amounts are in Kuwaiti Dinars)

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1. Incorporation and activities

Al Ahlia Kuwaiti Real Estate Company was incorporated pursuant to the Articles of Association of K.S.C. authenticated by Ministry of Justice - Real Estate Registration and Authentication Department – in the State of Kuwait under reference No.403 / Vol. 1 dated October 9,1997.

Pursuant to Memorandum No.295 dated August 19, 2003 issued by companies management based on the decision of Ordinary and Extra ordinary General Assembly held on July 30,2003, the amendments took place for Article No.(2) of the Articles of Association and Article No. (1) of the Articles of Incorporation which are related to Parent Company's name to be as follows:"The Company's name is : Aqar Real Estate Investment Company - K.S.C (Closed)" and its subsequent amendments which was the latest that implies the signing in the commercial register under reference No.69418 Vol.1 dated December 25,2011 which amends the Article No.(13) of the Articles of Incorporation to be as follows:"Board of Directors elected from General Assembly by confidential voting comprises from five members conducts the management of the Company".

The main objectives of Group are Real Estate development and other Real Estate investment activities.

The Parent Company is allowed to conduct the above mentioned activities inside State of Kuwait or abroad on its own or as an agent for other parties. The Parent Company may have an interest or in any way associate itself with other institutions practicing activities similar to its activities or which may assist the Parent Company in achieving its objectives in State of Kuwait or abroad. The Parent Company may establish, participate in or acquire these institutions or have them affiliated to it.

The Parent Company was listed in Kuwait Stock Exchange on April 11, 2005.

The Group has 14 employees (2011 – 12 employees).

The Parent Company's registered address is: P.O. Box 20017 – Safat 13061, State of Kuwait.

On November 29, 2012, a Decree Law No. 25 of 2012 promulgating the Companies Law was published in the Official Gazette, and Companies already established at the time this law comes into effect shall adjust their circumstances in accordance with the provisions of this law within six months of it coming into force and as specified in the Executive Regulations.

The consolidated financial statements were authorized for issue by the Board of Directors of the Parent Company on March 6, 2013. The Shareholders' General Assembly has the power to amend these consolidated financial statements after issuance.

2. Significant Accounting Policies

The accompanying consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Ministerial Order No. 18 of 1990. Significant accounting policies are summarized as follows:

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a) Basis of Preparation:

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention, except for quoted investments available for sale and investment properties that are stated at their fair value. The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as on January 1, 2012:

IFRS 7: Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amendment) (effective July 1, 2011)

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

The adoption of above mentioned amendment did not have any material impact on the financial position or performance of the Group.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(r).

Standards and interpretations issued but not effective

The following IASB Standards and interpretations have been issued but are not yet effective, and have not yet been adopted by the Group:

IAS 1 Presentation of items of other comprehensive income

The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories:

- a) Items that will not be reclassified, subsequently to consolidated statement of income.
- b) Items that may be reclassified to consolidated statement of income when specific conditions are met. The amendments are effective for annual periods beginning on or after July 1, 2012.

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IAS 28 Investments in associates and joint ventures

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

Amendments to IFRS 7 and IAS 32 offsetting financial assets and financial liabilities and the related disclosures

The amendments to IAS 32 clarify the meaning of “currently has a legally enforceable right of set off” and “simultaneous realization and settlement”. These are effective for annual periods beginning on or after January 1, 2014.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments are effective for annual periods beginning on or after January 1, 2013.

IFRS 9 Financial Instruments

The standard, which will be effective for annual periods beginning on or after January 1, 2015, specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified entirely based on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.

IFRS 10 Consolidated Financial Statements (issued in May 2011)

The new Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. It introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. This standard is effective for annual periods beginning on or after January 1, 2013

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IFRS 12 Disclosure of Interests in Other Entities (issued in May 2011)

The new Standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement (issued in May 2011)

The new Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after January 1, 2013.

These amendments and standards are not expected to have any impact on the Group's consolidated financial statements.

b) Principles of consolidation:

The consolidated financial statements incorporate the financial statements of Aqar Real Estate Investment Company - K.S.C (Closed) "The Parent Company" and the following subsidiaries:

Name of subsidiary	Country of incorporation	Activities	Percentage of holding %	
			2012	2011
Alroya International Real Estate Company - K.S.C. (Closed)	State of Kuwait	Real Estates Development	97.55%	96%
Gulf Spring Kuwait for Real Estate Development Company - W.L.L	State of Kuwait	Real Estates Development	99.98%	99.95%

Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the Non-controlling shareholder's share of changes in equity since the date of the combination.

Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the Group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the Company. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in the consolidated statement of comprehensive income;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in the consolidated statement of comprehensive income to the consolidated statement of income or retained earnings as appropriate.

c) Financial instruments:

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash and cash equivalents, investments available for sale, term loan and accounts payable.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

c.1) Cash and cash equivalents:

Cash and cash equivalents includes cash on hand and at banks, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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c.2) Investments:

The Group classifies its investments as available for sale investments. The classification depends on the purpose for which the investments were acquired and is determined at initial recognition by the management.

Investments available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the end of the reporting period.

Purchases and sales of investments are recognized settlement date – the date on which an asset is delivered to or by the Group. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through consolidated statement of income.

After initial recognition, investments available for sale are subsequently carried at fair value. The fair values of quoted investments are based on current bid prices. If the market for an investment is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Unrealized gains and losses arising from changes in the fair value of investments available for sale are recognized in cumulative changes in fair value in the consolidated statement of comprehensive income.

Where investments available for sale could not be measured reliably, these are stated at cost less impairment losses, if any.

When an investment available for sale is disposed off or impaired, any prior fair value earlier reported in the consolidated statement of comprehensive income is transferred to the consolidated statement of income.

An investment (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the investment have expired; or the Group has transferred its rights to receive cash flows from the investment and either (a) has transferred substantially all the risks and rewards of ownership of the investment, or (b) has neither transferred nor retained substantially all the risks and rewards of the investment, but has transferred control of the investment. Where the has retained control, it shall continue to recognize the investment to the extent of its continuing involvement in the investment.

**AQAR REAL ESTATE INVESTMENT COMPANY - K.S.C. (CLOSED) AND SUBSIDIARIES**  
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The Group assesses at the end of each reporting period whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. Significant is evaluated against the original cost of the investment and prolonged against the period in which fair value has been below its original cost. If any such evidence exists for investments available for sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement – is removed from consolidated statement of comprehensive income and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on available for sale equity instruments are not reversed through the consolidated statement of income.

c.3) Borrowings:

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

c.4) Accounts payable:

Accounts payables include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non - current liabilities.



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d) Associates:

Associates are those enterprises in which the Group has significant influence which is the power to participate in the financial and operating policy decisions of the associate. The consolidated financial statements include the Group's share of the results and assets and liabilities of associates under the equity method of accounting from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate. The Group recognizes in the consolidated statement of comprehensive income for its share of changes in other comprehensive income of associate.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized except to the extent that the Group's has an obligation or has made payments on behalf of the associate.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. If the cost of acquisition is lower than the Group share of the net fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized immediately in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statement of income.

After the application of the equity method, the Group determines whether it is necessary to recognize 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 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 recognizes the amount in the consolidated statement of income.

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e) Investment properties:

Investment properties comprise completed property, property under construction or re-development held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost including purchase price and transaction costs. Subsequent to initial recognition, investment properties are stated at their fair value at the end of reporting period. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated statement of income for the period in which they arise.

Property interest that is held under an operating lease is classified and accounted for as investment property when the property would otherwise meet the definition of an investment property and the lessee uses the fair value model.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses arising on the retirement or disposal of an investment property are recognized in the consolidated statement of income.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

f) Property and equipment:

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

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Depreciation is computed on a straight-line basis over the estimated useful lives of property and equipment as follows:

<u>Assets</u>	<u>Useful life (Years)</u>
Furniture and equipment	3 - 5

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment.

g) Impairment of assets:

At the end of each reporting period, the Group reviews the carrying amounts of tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

h) End of service indemnity:

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employees' contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of the consolidated statement of financial position, and approximates the present value of the final obligation.

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i) Share capital:

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

j) Treasury shares:

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings and then reserves.

Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Where any Group's purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Parent Company's equity holders.

k) Provisions:

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at the end of each consolidated statement of financial position and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

l) Revenue recognition:

Revenue comprises the fair value of the consideration received or receivable for rendering of services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

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The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Rent

Rental income is recognized, when earned, on a time apportionment basis.

Interest income

Interest income is recognized using the effective interest method.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Gain on sale of investments

Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

m) Borrowing costs:

All borrowing costs are recognized in the consolidated statement of income in the period for which they are incurred.

n) Foreign currencies:

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency as at the date of consolidated statement of financial position are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated statement of income. Translation differences on non-monetary items such as equity investments classified as investments available for sale are included in "cumulative changes in fair value" in the consolidated statement of comprehensive income.

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o) Segment reporting:

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

p) Contingencies:

Contingent liabilities are not recognized but disclosed in the consolidated financial statements except when the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

q) Dividend distribution:

Dividend distribution to the Parent Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Parent Company's shareholders.

r) Critical accounting judgments, estimates and assumptions:

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

a) Judgments:

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

(i) Revenue Recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

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(ii) Investment properties

When the intention of the Group is to earn rentals from land or hold the land for capital appreciation or if the intention is not determined for land, the land is classified as investment property.

(iii) Provision for doubtful debts

The determination of the recoverability of the amount due from customers and the factors determining the impairment of the receivable involve significant judgment.

(iv) Classification of investments

On acquisition of an investment, the Group decides whether it should be classified as at fair value through statement of income or available for sale. The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as "at fair value through statement of income" if they are acquired primarily for short term profit making or if they are designated at fair value through statement of income at inception, provided their fair values can be reliably estimated. The Group classifies investments as classified as "available for sale".

(v) Impairment of investments

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, a significant or prolonged decline in the fair value below its cost; and the financial health of and short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The determination of what is "significant" or "prolonged" requires significant judgment.

b) Estimates and assumptions:

The key assumptions concerning the future and other key sources of estimating uncertainty at the end of the consolidated statement of financial position that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Fair value of unquoted equity investments

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

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(ii) Provision for doubtful debts

The extent of provision for doubtful debts involves estimation process. Provision for doubtful debts is made when there is an objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable are subject to management approval.

(iii) Revaluation of investment properties

The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statement of income. In addition. For the investment property the valuer used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the property. The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate.

(iv) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

3. Cash and cash equivalents

	<u>2012</u>	<u>2011</u>
Cash on hand and at banks	470,197	162,082
Short term bank deposits	5,400,000	3,600,757
	<u>5,870,197</u>	<u>3,762,839</u>

The effective annual interest rate on short term bank deposits is ranging from 0.625% to 1.75% (2011 – from 1% to 1.75%). These deposits had maturity of three months.

There is no material difference between the fair value and carrying value of cash and cash equivalents.



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4. Other debit balances

	<u>2012</u>	<u>2011</u>
Due from related party (Note 17)	3,020	15,090
Due from brokerage company	134,767	-
Refundable deposits	18,500	1,980
Prepaid expenses	16,134	14,174
Accrued revenues	6,024	2,215
Staff receivables	277	12,009
Others	4,519	-
	<u>183,241</u>	<u>45,468</u>

The fair values of other debit balances approximated their carrying values as at December 31, 2012.

The other classes within other debit balances do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of other debit balances mentioned above.

5. Investments available for sale

Investments available for sale represented by:

	<u>2012</u>	<u>2011</u>
Quoted equity securities	465,945	674,250
Unquoted equity securities	1,906,417	1,906,417
Investment fund	463,596	463,596
Investment portfolio	-	524,553
	<u>2,835,958</u>	<u>3,568,816</u>

As on December 31, 2011, the investment portfolio amounted to KD 524,553 was managed by related party (Note 17).

It was not possible to reliably measure the fair value of unquoted securities due to non availability of a reliable method that could be used to determine the fair value of such investments. Accordingly, they were stated at their cost less impairment losses.

The investments available for sale were valued by the following currencies:

	<u>2012</u>	<u>2011</u>
Kuwaiti Dinar	785,946	1,518,804
Bahraini Dinar	579,509	579,509
US Dollar	1,470,503	1,470,503
	<u>2,835,958</u>	<u>3,568,816</u>

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6. Investments in associates

The investments in associates consist of the following:

Name of the associate	Country of Incorporation	Principal Activities	Ownership percentage		2012	2011
			2012	2011		
Al Mal and Aqar Joint Projects Company - W.L.L.	State of Kuwait	Real Estates Development	33.33%	33.33%	4,125,159	4,066,787
Al Barsha Real Estate Company - K.S.C. (Closed)	State of Kuwait	Real Estates Development	35%	35%	613,740	584,131
					<u>4,738,899</u>	<u>4,650,918</u>

Associates are not listed companies. The movement during the year was as follows:

	2012	2011
Balance at the beginning of the year	4,650,918	5,678,550
Group's share of results from associates	87,981	(229,825)
Impairment loss	-	(797,807)
Balance at the end of the year	<u>4,738,899</u>	<u>4,650,918</u>

The Group's management revalued their investments in associates through comparing recoverable amount with the book value which resulted in impairment loss amounted to KD 797,807 as on December 31, 2011.

The summarized financial information in respect of the associates are as follows:

Name of the associate	Assets		Liabilities		Net assets		Group's share of net assets	
	2012	2011	2012	2011	2012	2011	2012	2011
Al Mal and Aqar Joint Projects Company - W.L.L.	13,806,607	13,776,734	193,952	339,195	13,612,655	13,437,539	4,125,159	4,066,787
Al Barsha Real Estate Company - K.S.C. (Closed)	9,848,615	9,723,912	7,066,216	7,026,108	2,782,399	2,697,804	613,740	584,131
	<u>23,655,222</u>	<u>23,500,646</u>	<u>7,260,168</u>	<u>7,365,303</u>	<u>16,395,054</u>	<u>16,135,343</u>	<u>4,738,899</u>	<u>4,650,918</u>

Name of the associate	Revenue		Results		Group's share of results	
	2012	2011	2012	2011	2012	2011
Al Mal and Aqar Joint Projects Company - W.L.L.	38,220	42,925	175,116	(583,872)	58,373	(194,624)
Al Barsha Real Estate Company - K.S.C. (Closed)	583,380	482,235	84,595	(100,892)	29,608	(35,201)
	<u>621,600</u>	<u>525,160</u>	<u>259,711</u>	<u>(684,764)</u>	<u>87,981</u>	<u>(229,825)</u>

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7. Investment properties

	<u>2012</u>	<u>2011</u>
Balance at the beginning of the year	12,791,975	11,641,494
Additions	3,038,325	1,278,850
Disposals	(5,228,322)	-
Change in fair value	22	(128,369)
Balance at the end of the year	<u>10,602,000</u>	<u>12,791,975</u>

As on December 31, 2012, the fair value of Group's investment properties is as per independent valuers.

The Group management has complied with Capital Market Authority decision dated July 23, 2012 with respect to guideline for fair value of investment properties.

Investment properties with a book value amounting to KD 3,750,000 (2011 - KD 3,750,000) are pledged for local bank against term loan (Note 8).

During current year, the Group sold investment properties for an amount of KD 7,394,064 resulting in a gain of KD 2,165,742.

8. Term loan

The term loan represents payable loan granted to the Parent Company by a local bank and bears an interest rate of 3% (2011 – 3 %) per annum over the Central Bank of Kuwait discount rate, secured by mortgage of investment properties with book value amounting to KD 3,750,000 (2011 – KD 3,750,000) (Note 7), and payable on October 31,2013.

9. Provision for end of service indemnity

	<u>2012</u>	<u>2011</u>
Balance at the beginning of the year	90,343	57,004
Charge for the year	15,960	33,339
Paid during the year	(93,444)	-
Balance at the end of the year	<u>12,859</u>	<u>90,343</u>

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10. Accounts payable and other credit balances

	<u>2012</u>	<u>2011</u>
Due to contractors	224,661	226,211
Trade payables	11,312	13,154
Accrued expenses	46,419	38,635
Zakat payable	21,903	125
Rent received in advance	11,220	9,785
Accrued leave	6,585	27,285
Tenants' deposits	22,545	-
NLST payable	56,477	780
KFAS payable	1,065	1,065
Board of Directors' remunerations payable	30,000	-
	<u>432,187</u>	<u>317,040</u>

Trade payables are non-interest bearing.

There is no material difference between the fair value and carrying value of accounts payable and other credit balances as at December 31, 2012.

11. Share capital

The Parent Company's authorized, issued and paid-up capital consist of 234,250,000 shares (2011 - 234,250,000 shares) of 100 fils each, and all shares are in cash.

12. Share premium

This represents cash received in excess of the par value of the shares issued. The share premium is not available for distribution except in cases stipulated by law.

13. Treasury shares

	<u>2012</u>	<u>2011</u>
Number of treasury shares (share)	5,282,110	2,759,200
Percentage to issued shares (%)	2.25%	1.18%
Market value (KD)	496,518	248,328
Cost (KD)	481,746	296,644

14. Statutory reserve

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association. Since there are accumulated losses, there was no transfer to statutory reserve.

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15. Voluntary reserve

As required by the Parent Company's Articles of Association, 10% of the profit for the year attributable to equity holders of the Parent Company before contribution to KFAS, NLST and Zakat is transferred to the voluntary reserve. Such annual transfers may be discontinued by a resolution of the shareholders' General Assembly upon recommendation by the Board of Directors. Since there are accumulated losses, there was no transfer to voluntary reserve.

16. Real estates income

Real estate income represents financing income on a real estate receivable amount relating to a previously completed real estate construction project. Deferred financing income is amortized on an effective yield basis at an effective interest rate of 10.94%. During the year ended December 31, 2011, the long term receivable has been completely settled.

17. Related party disclosures

The Group has entered into various transactions with related parties, i.e. shareholders, associates, key management personnel and other related parties in the normal course of its business concerning financing and other related services. Prices and terms of payment are approved by the Group's management. Significant related party balances and transactions are as follows:

Consolidated statement of financial position:

Due from related party

	Nature of relationship	<b>2012</b>	2011
Al Barsha real Estate Company - K.S.C. (Closed) (Note 4)	Associate	<u><b>3,020</b></u>	<u>15,090</u>

Investment portfolio managed by related party as on December 31, 2011 amounted to KD 524,553 (Note 5).

Consolidated statement of income:

Transactions included in the consolidated statement of income:

	<b>2012</b>	2011
Shareholders management fees	<u><b>1,021</b></u>	1,964
Associate's properties management fees	<u><b>12,000</b></u>	12,000

Key management compensations

	<b>2012</b>	2011
Short-term benefits	<u><b>61,491</b></u>	48,277
Post-employment benefits	<u><b>5,812</b></u>	5,625
	<u><b>67,303</b></u>	<u>53,902</u>

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18. General and administrative expenses

General and administrative expenses include staff costs amounting to KD 200,965 (2011 – KD 219,312).

19. Contribution to Kuwait Foundation for the Advancement of Sciences

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit of the Parent Company after deducting its share of income from shareholding subsidiaries and transfer to statutory reserve.

No KFAS has been provided for the year ended December 31, 2012 and December 31, 2011 since there was no profit on which KFAS could be calculated.

20. National Labor Support Tax (NLST)

National Labor Support Tax is calculated at 2.5% on the consolidated profit of the Company after deducting its share of cash dividends received from listed companies subject to the same law in accordance with law No. 19 for year 2000 and Ministerial resolution No. 24 for year 2006 and their executive regulations.

No NLST has been provided for the year ended December 31, 2011 since there was no profit on which NLST could be calculated.

21. Contribution to Zakat

Contribution to Zakat is calculated at 1% on the consolidated profit of the Company after deducting its share of profit from Kuwaiti shareholding associates subject to the same law, also its share of Zakat paid by Kuwaiti shareholding subsidiaries subject to the same law and cash dividends received from Kuwaiti shareholding companies subject to the same law in accordance with law No. 46 for year 2006 and Ministerial resolution No. 58 for year 2007 and their executive regulations.

No Zakat has been provided for the year ended December 31, 2011 since there was no profit on which Zakat could be calculated.

22. Earnings (loss) per share

There are no potential dilutive ordinary shares. The information necessary to calculate basic earnings (loss) per share based on the weighted average number of shares outstanding during the year is as follows:

	<u>2012</u>	<u>2011</u>
Profit (loss) for the year attributable to Shareholders of the Parent Company	<u>2,218,306</u>	<u>(1,893,526)</u>
Number of outstanding shares at beginning of the year	<u>234,250,000</u>	<u>234,250,000</u>
Less: weighted average number of treasury shares	<u>(4,187,909)</u>	<u>(2,759,200)</u>
Weighted average number of shares outstanding	<u>230,062,091</u>	<u>231,490,800</u>
Earnings (loss) per share (fils)	<u>9.64</u>	<u>(8.18)</u>

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23. Proposed cash dividends

The Parent Company's Board of Directors held on March 6, 2013 has proposed not to distribute cash dividends or bonus shares for the year ended December 31, 2012, also proposed remuneration for the Board of Directors' amounted to KD 30,000. These proposals are subject to the approval of the Shareholders' General Assembly.

The Parent Company's Shareholders' General Assembly Meeting held on May 3, 2012 had approved not to distribute cash dividends or bonus shares for the year ended December 31, 2011.

24. Segment information

The Group is organized into functional divisions to manage its various lines of business. The Group operates mainly in the State of Kuwait. For the purposes of segment reporting, the Group's management has grouped its products and services into the following business segments:

- Real estate segment
- Investments segment
- Other segments

Details of the above segments, which constitute the segment information, are as follows:

<u>For the year ended December 31, 2012</u>	Real estate segment	Investments segment	Other	Total
Rental income	434,276	-	-	434,276
Real estates operating expenses	(48,192)	-	-	(48,192)
Net real estate's income	386,084	-	-	386,084
Other income	-	-	35,037	35,037
Interest income	-	-	31,520	31,520
Realized gains from sale of investments available for sale	-	25,909	-	25,909
Impairment loss for investments available for sale	-	(127,796)	-	(127,796)
Cash dividends	-	55,199	-	55,199
Group's share of results from associates	-	87,981	-	87,981
Change in fair value of investment properties	22	-	-	22
Gains from sale of investment properties	2,165,742	-	-	2,165,742
Depreciation	-	-	(5,699)	(5,699)
General and administrative expenses	-	-	(294,263)	(294,263)
Finance charges	-	-	(32,930)	(32,930)
Foreign currency exchange	-	-	(57)	(57)
National Labor Support Tax	-	-	(55,697)	(55,697)
Zakat Contribution	-	-	(21,574)	(21,574)
Board of Directors' remuneration	-	-	(30,000)	(30,000)
Non - controlling interests	-	-	(1,172)	(1,172)
Net profit (loss) for the year attributable to the Parent Company's Shareholders	<u>2,551,848</u>	<u>41,293</u>	<u>(374,835)</u>	<u>2,218,306</u>
Other information:				
Segment assets	<u>10,602,000</u>	<u>7,574,857</u>	<u>6,069,565</u>	<u>24,246,422</u>
Segment liabilities	<u>235,881</u>	<u>-</u>	<u>239,165</u>	<u>475,046</u>

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<u>For the year ended December 31,2011</u>	Real estate segment	Investments segment	Other	Total
Real estates income	593,372	-	-	593,372
Rental income	222,749	-	-	222,749
Real estates operating expenses	(21,600)	-	-	(21,600)
Net real estate's income	794,521	-	-	794,521
Other income	-	-	12,246	12,246
Interest income	-	-	31,669	31,669
Bad debts	-	-	(152,252)	(152,252)
Realized losses from sale of investments available for sale	-	(30,671)	-	(30,671)
Impairment loss for investments available for sale	-	(1,100,995)	-	(1,100,995)
Cash dividends	-	195,150	-	195,150
Group's share of results from associates	-	(229,825)	-	(229,825)
Impairment loss for investments in associates	-	(797,807)	-	(797,807)
Change in fair value of investment properties	(128,369)	-	-	(128,369)
Depreciation	-	-	(4,559)	(4,559)
General and administrative expenses	-	-	(321,712)	(321,712)
Finance charges	-	-	(168,774)	(168,774)
Foreign currency exchange	-	-	210	210
Non-controlling interests	-	-	7,642	7,642
Net profit (loss) for the year attributable to the Parent Company's Shareholders	<u>666,152</u>	<u>(1,964,148)</u>	<u>(595,530)</u>	<u>(1,893,526)</u>
Other information:				
Segment assets	<u>12,791,975</u>	<u>8,219,734</u>	<u>3,828,461</u>	<u>24,840,170</u>
Segment liabilities	<u>235,426</u>	<u>-</u>	<u>2,901,957</u>	<u>3,137,383</u>

**25. Financial Risk Management**

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalents, investments available for sale, term loan and accounts payable as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

**Interest rate risk:**

Financial instruments are subject to the risk of changes in value due to changes in the level of interest. The effective interest rates and the periods in which interest bearing financial assets and liabilities are re priced or mature are indicated in the respective notes.



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The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit (through the impact on floating rate borrowings).

	Increase / (Decrease) in interest rate	Balance	Effect on consolidated statement of income
<b><u>2012</u></b>			
Term loan	± 50 basis points	<b>30,000</b>	<b>±150</b>
<b><u>2011</u></b>			
Term loan	± 50 basis points	2,730,000	±13,650

The above table is based on the assumptions relating to the outstanding term loan balances as on December 31 and the sensitivity on account of change in interest rates.

**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. Financial assets, which potentially subject the Group to credit risk, consist principally of cash at banks and due from related party. The Group's cash at banks is placed with high credit rating financial institutions.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash and cash equivalents and due from related party.

**Foreign currency risk:**

The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. The Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between the following currencies and Kuwaiti Dinar.

	Increase / (decrease) against Kuwaiti Dinar	Effect on consolidated statement of comprehensive income
<b><u>2012</u></b>		
USD	±5%	<b>± 23,180</b>
<b><u>2011</u></b>		
USD	±5%	± 23,180
Saudi Riyal	±5%	± 558
Pound	±5%	± 11

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Liquidity risk:

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk the Group periodically assesses the financial viability of customers and invests in bank deposits.

The maturity profile of financial liabilities was as flows:

	1 – 3 months	3 – 12 months	Over 1 year	Total
<b>2012</b>				
Term loan	-	<b>30,000</b>	-	<b>30,000</b>
Accounts payable and other credit balances	<b>191,695</b>	<b>240,492</b>	-	<b>432,187</b>
	<b>191,695</b>	<b>270,492</b>	-	<b>462,187</b>
	1 – 3 months	3 – 12 months	Over 1 year	Total
<b>2011</b>				
Term loan	-	2,500,000	230,000	2,730,000
Accounts payable and other credit balances	63,544	253,496	-	317,040
	63,544	2,753,496	230,000	3,047,040

Equity price risk:

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investments in equity securities classified as available for sale.

The following table demonstrates the sensitivity to a reasonably possible change in equity indices as a result of change in the fair value of these investments, to which the Group had significant exposure at December 31:

Market indices	Change in equity price %	Effect on consolidated statement of comprehensive income
<b>2012</b>		
KSE	± 5%	± 23,297
<b>2011</b>		
KSE	± 5%	± 47,411

Fair value of financial instruments:

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. At December 31, the fair values of financial instruments approximate their carrying amounts due to their early maturity, except for unquoted investments available for sale that it was not possible to reliably measure the fair value as indicated in Note (5).

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The Group applied IFRS 7 which measured in the consolidated statement of financial position through fair value which requires disclosure of fair value measurements by level of the fair value measurement hierarchy.

Fair value estimation:

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

The following table presents the Group's investments that are measured at fair value at December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments available for sale	<u>465,945</u>	<u>463,596</u>	<u>929,541</u>

The following table presents the Group's investments that are measured at fair value at December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments available for sale	<u>1,198,803</u>	<u>463,596</u>	<u>1,662,399</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the fiscal year. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Instruments included in level 1 comprise primarily traded equity investments classified as available-for-sale securities.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on Group's specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of fiscal year.

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- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

**26. Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, sell some assets to reduce debt, repay of loans or obtain additional loans.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short term and long term loans as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

For the purpose of capital risk management, the total capital resources consist of the following components:

	<u>2012</u>	<u>2011</u>
Term loan	30,000	2,730,000
Less: Cash and cash equivalents	(5,870,197)	(3,762,839)
Net debt	(5,840,197)	(1,032,839)
Total equity	23,771,376	21,702,787
Total capital resources	<u>17,931,179</u>	<u>20,669,948</u>

**27. Subsequent events**

The Board of Directors for Alroya International Real Estate Company - K.S.C. (Closed) "Subsidiary owned by the Parent Company with 97.55%" held on February 10, 2013 and proposed liquidation of the subsidiary through volunteer agreement with shareholders according to applicable legal procedures regarding this matter.