



الارجان  
ALARGAN

الحياة... كما تحبها

Life... As You Love It

عشرون عاماً من النجاح  
20 Years of Success



His Highness  
**Sheikh Sabah Al-Ahmad**  
**Al-Jaber Al-Sabah**  
Amir of the State of Kuwait



His Highness  
**Sheikh Nawaf Al-Ahmad**  
**Al-Jaber Al-Sabah**  
Crown Prince

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# Vision, Mission & Values

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## Vision:

To become the real-estate brand of choice by offering innovative and sustainable products that anticipate the life-style needs of our communities.

## Mission:

To provide life enhancing solutions while generating superior value to our stakeholders.

## Values:

- Motivate our people
- Innovate in our projects
- Differentiate our products

# ALARGAN At A Glance

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Established in 1994 as a contracting company with a focus on the construction of middle income housing in Kuwait, ALARGAN has grown to become a fully-fledged developer. The company, envisioned by the present Vice Chairman and Chief Executive Officer Eng. Khaled Khudair Al-Mashaan, was realized in its current form, a joint stock company, with the incorporation of ALARGAN International Real Estate as a closed Kuwaiti shareholding company in 2002. Since then, it has grown into one of the leading real estate developers in the GCC and was first listed on the Kuwait Stock Exchange in 2007.

Since its inception, ALARGAN has primarily focused on developing quality affordable and middle-income housing solutions at competitive prices within the different markets that it operates. In the process, the company has acquired extensive

knowledge on an array of properties, ranging from residential, commercial projects and master planned communities to mixed-use and touristic developments.

Recognizing the need and strength of local knowledge and expertise, ALARGAN has carefully and successfully created a network of strategic partners across the region, expanding the company's reach to the main segments of the real estate sector in the Sultanate of Oman in 2003, Kingdom of Bahrain in 2005 and Kingdom of Saudi Arabia in 2006. The company currently retains more than USD 250 million of shareholders' equity and oversees more than USD 2 billion in projects under development.

# Chairman's Message



Chairman

Dear shareholders,

**On behalf of myself and my fellow members of the Board it is my pleasure to present to you the annual report of ALARGAN International Real Estate Company. It highlights ALARGAN's main achievements during 2014, reflecting a powerful performance coupled with a distinctive vision for the future.**

This year, ALARGAN witnessed an exceptional transformation. As a result of the new vision, the company was recognized as the Best Real Estate Developer in Kuwait by "Arabian Business" Magazine. In addition to the bond rating with a stable outlook. This achievement is a direct result of the company's new business model, which also drove an increase in revenue growth.

At the same time, the company is focusing on strengthening its income generating real estate portfolio by developing properties built on lands leased under a private build-operate-and-transfer

structure.

## **Where do we stand today? And what are our strength factors?**

Ever since its establishment in 1994, ALARGAN International Real Estate Company's strategy focused on developing high quality projects with attractive prices in the Gulf Cooperation Council (GCC) countries. Further, and in order to enhance our revenues and sustain ALARGAN's growth, the company has begun to implement its five-year strategic plan, labeled: 'Regional Leadership in Real Estate Development by 2020'. In addition, the new strategy sets a target for improving earnings per share to 40 fils and distributing dividends accordingly valued at 20 fils per share by 2020.

As we believe in bringing the joy of life to our communities, we have chosen 'Life...as you love it' as our motto. We will deliver on our promise to our clients and shareholders by developing integrated residential and commercial centers with a distinctive lifestyle that combines leisure, shopping and dining experiences.

Furthermore, our strategy also includes entering into partnerships that unlock the value of targeted properties, investing in safe real estate projects with stable financial returns and expanding into new markets through replicating our unique model. The success of this strategy will be guaranteed by the efforts of our dedicated team.

While leveraging on our core competence of providing housing solutions at affordable prices, the company sought in 2014 to diversify its investments by segment and geography. This strategic direction was successfully achieved in the Sultanate of Oman and Kingdom of Bahrain and was best accomplished in the Kingdom of Saudi Arabia. ALARGAN seeks to replicate this success in new markets through strategic partnerships within the MENA region, as well as to exit selective investments through restructuring its real estate portfolio.

## **The State of Kuwait**

In general, the real estate sector is considered a safe haven for investors, and is generally the most preferred investment vehicle. Despite the fierce competition in the hospitality sector, the company maintained its current revenue volume from hotels and shop rentals in 2014. The development of '**ARGAN Square**' project, located in Salmiyah, is also ongoing in full swing. This project is considered a significant addition to the group's revenue producing assets.

## **The Kingdom of Saudi Arabia**

Through our presence in the Kingdom of Saudi Arabia we seek to provide residential solutions that take into account the demands of the Saudi society and meet their needs. The company sought to

provide residential solutions that combine innovative designs with competitive prices in keeping with our model. During 2014, more than 1200 housing units in different projects were completed.

### The Kingdom of Bahrain

In the Kingdom of Bahrain, we completed the development of Phase III of the '**Jeyoun**' project that overlooks the Sheikh Essa bin Salman Street. The residential side of the project has been completely sold out. Another nearby project will be launched in the near future and it will continue to showcase ALARGAN's evolving designs.

Phase II of the commercial part of the project, '**ARGAN Village**' has also been completed and we began the rental process to some of the most important international franchising companies and restaurants, in addition to famous local companies in this field.

### The Sultanate of Oman

In the Sultanate of Oman, the company started implementing Phase II of '**Al Waha**' project, which is a residential and commercial compound build over a 684,000 square meters area in Barka City. Phase I of the project, which was completed in 2014, was sold out in its entirety, while nearly 60% of phase II has been sold off-plan. We are currently working on the infrastructure for '**BARKA Resort**' project, which is considered one of the largest ITC resorts in the Sultanate.

As for '**Telal Al Qurum**' project, Batch I and II have been sold completely. Meanwhile, Batch III is in high demand attesting to the market need for high quality middle income housing solutions.

### Platinum Certification in LEED

After achieving points for the Platinum level, the highest rating in Leadership in Energy and Environmental Design (LEED), ALARGAN has been awarded LEED® Platinum certification for Commercial Interiors from the United States Green Building Council (USGBC) in 2014, the first of its kind in Kuwait. We worked hard to implement the highest standards pertained to energy and environmental design in all of the company's works and projects (buildings, villas, houses, compounds). These standards were also implemented during construction process to protect the environment and public health.

### Financial results

The company concluded its business for 2014 with approximate 20.5% increase in net profits compared to 2013. Net profits for 2014 amounted to KD 4.66 million with earnings of 18.17 fils per share, compared to KD 3.86 million and earnings of 15.08 fils per share in 2013. This happened despite the fact that the company reduced the value of its investment properties and land held for trading by KD 2.33 million in 2014, compared to a KD 1.22 million increase in 2013.

The increase in net profit in 2014 compared to the previous year resulted mainly from executing the first

deal concerning selling 7.5% of total shares owned by a real estate fund (wholly owned by the parent company and its subsidiaries) in the capital of an associate company in the Kingdom of Saudi Arabia, which resulted in a KD 3.26 million profit.

In addition, the company managed during the year ending in December 31, 2014 to achieve a significant increase of 43% in its share of results from associates, as the company's share reached KD 3.96 million in 2014 compared to KD 2.76 million in 2013. The company also managed to maintain a stable level of operational activities for revenues from rents and resorts in 2014 compared to 2013. Net Profit from rental income and resort operations reached KD 6.4 million in 2014, compared to approximate same amount in 2013. The revenue from the construction and its related activities dropped by 93% due to the completion of the majority of the current projects, while new projects' revenues are yet to have a material financial impact on the company's financials.

Furthermore, the group's total revenues increased from KD 25.27 million in 2013 to KD 26.42 million in 2014, by an increase of 4.5%, despite the fact that in 2013 a portion of the income was a result of revaluation of properties.

The group's total expenses increased from KD 21.34 million in 2013 to KD 21.66 million in 2014, by an increase of 1.5%. Despite the fact that the loss recognized from properties revaluation during the current year.

Furthermore, total current assets for 2014 increased by 43%, while total assets increased by 6%. Total liabilities increased by 5% in 2014. The equity attributable to the parent company shareholders increased by 7% compared to 2013.

The financial indicators in 2014 figures as follows:

- Current Ratio: 2.2 times.
- Leverage Ratio: 81%
- Return on Parent Company's Shareholders' equity: 6.1%
- Return on Capital: 17.6%

In conclusion, I would like to thank our esteemed shareholders for their loyalty and support and our clients for their trust which continues to motivate us on our quest for success.

I also would like to express my gratitude and appreciation to my fellow members of the Board of Directors and Executive Management as well as our talented employees for their exceptional efforts during this period. We reiterate our commitment to maintaining the highest standards in our projects in accordance to our values and vision.

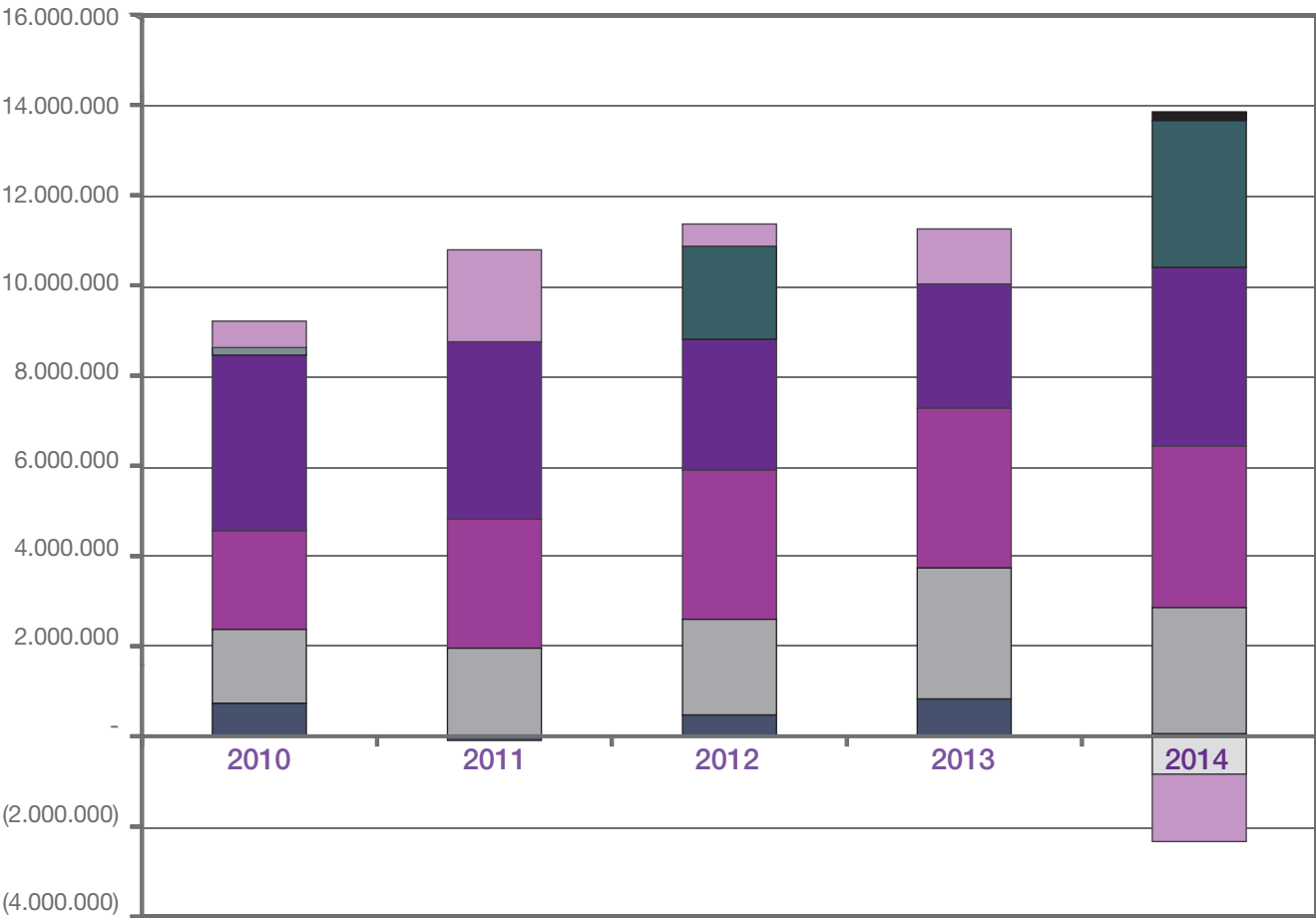


**Haitham S. Al- Khaled**  
Chairman



# Financial Highlights

## Operating Gross Profit

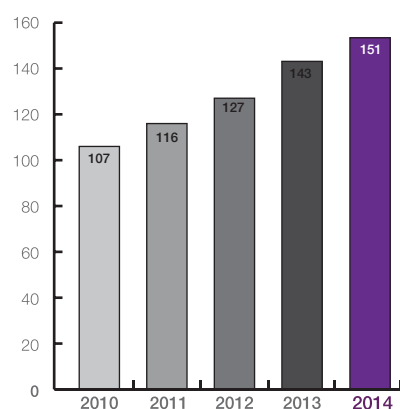


- Unrealized gain (loss) from changes in fair value of investment properties
- Impairment loss for land held for trading
- Realized gain on sale of investment properties
- Realized gain on sale of subsidiary
- Realized gain on sale of Share in associates
- Group's share of results from associate
- Net gain from resorts
- Net gain from rent
- Net gain (loss) from projects

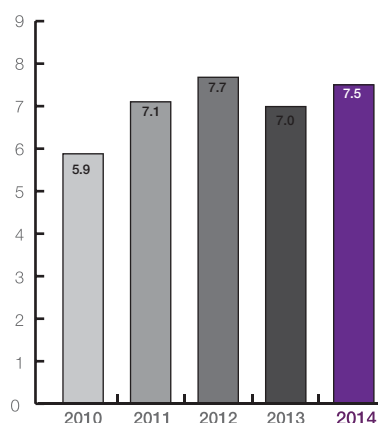


**Total Assets**

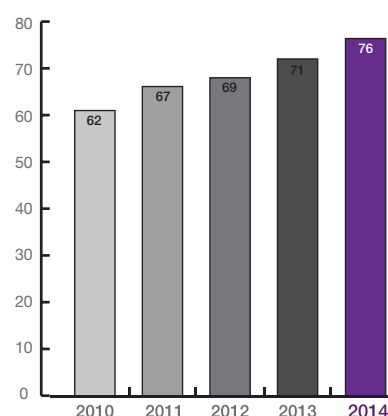
(KDmn)

**Operating Profit**

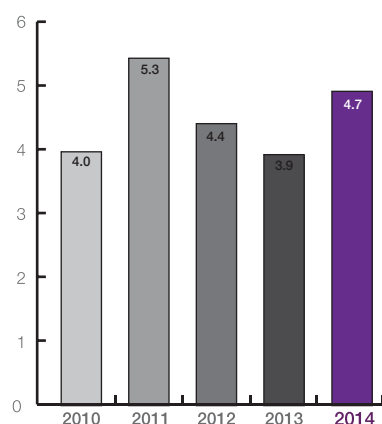
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**Shareholders' Equity Attributed to Parent**

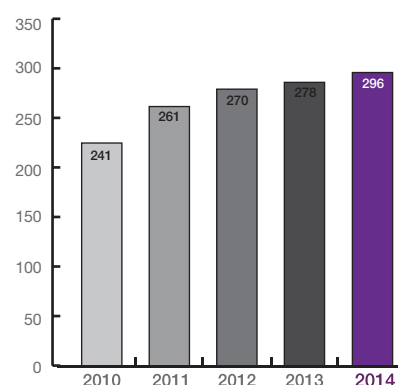
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**Net Profit Attributed to Parent**

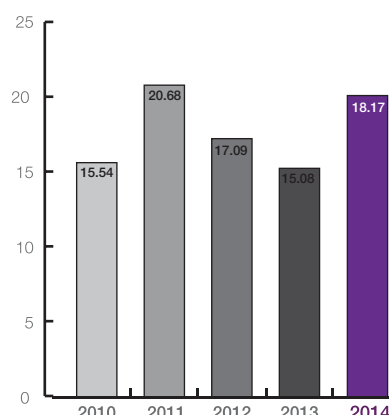
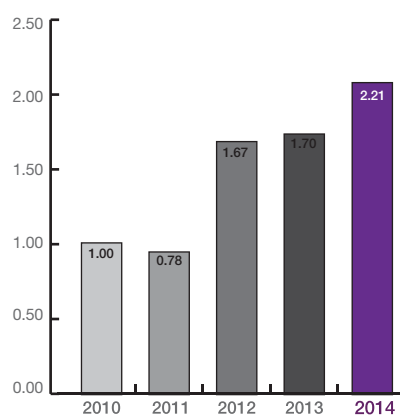
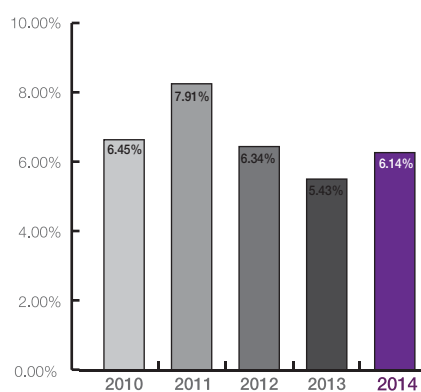
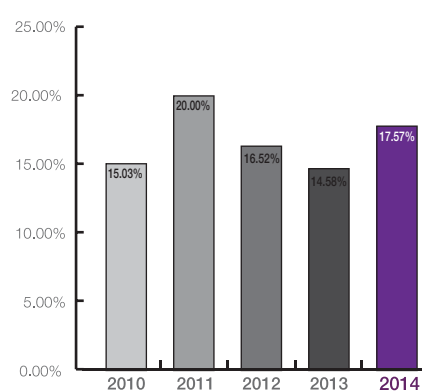
(KDmn)

**Book Value per Share**

(fils)

**Earnings per Share**

(fils)

**Current Ratio****Return on Equity****Return on Capital**

## Board of Directors

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**Haitham Al-Khaled**

Chairman



**Khaled Al-Mashaan**

Vice Chairman and CEO



**Hamad Al-Mudhaf**

Board Member



**Mohammed Al-Othman**

Board Member



**Tareq Al-Mutawa**

Independent Member

# Corporate Governance

**ALARGAN International Real Estate Company strongly affirms that Corporate Governance (CG) is an essential component of sound business practices. ALARGAN recognizes that Corporate Governance ensures conscientious management and mitigates risks inherent to the housing industry.**

As such, ALARGAN has adopted and surpassed the governance principles and best practice standards set by the Kuwaiti Capital Markets Authority (CMA). Along with these standards, the company actively assesses the performance and quality of its products and services, thereby ensuring that capital investment decisions are always deliberated with respect to our stakeholders. The main purpose behind adopting any corporate governance practices is to regulate the relationship between all parties in the shareholding companies, from the shareholders and board of directors to the executive management team.

ALARGAN corporate governance principles are based on building a balanced power structure for the board of directors by identifying the board's duties and responsibilities in full transparency. Moreover, these principles ensure the integrity of all financial reports issued by the company, while protecting the interests and rights of its shareholders.

## Board of Directors

In general, the Board of Directors of ALARGAN are required to act in the best interests of the company through maximizing the value of the firm. To achieve this objective, the Board of Directors oversees the performance of the executive management team and guides them through the development of key business strategies that lead to the company's overall goals. The board monitors the short and long term plans that are drafted by the Executive Management and which expand the future vision and position of the company.

As part of its duties and in compliance with legislative laws, the Board will decide on the optimal capital structure of the company, approve estimated budgets and annual financial statements, oversee major capital expenditures, and determine the ownership and disposal of assets.

## Disclosure and Transparency

As previously stated, ALARGAN recognizes the importance of adopting disclosure and transparency as essential values to achieve fair and balanced treatment of all stakeholders. The company is keen to provide shareholders with statements that include accurate information about the company's activities related to financial performance, strategies and dealings with all parties in accordance with the legislative requirements of disclosure and transparency.

## Shareholder's Rights

All shareholders of ALARGAN have full rights, the most important of which is to raise the value of their investments and to participate in General Assembly meetings, as well as to vote on decisions, and to obtain their portion of dividend distribution.

# Corporate Social Responsibility

One of the main priorities of ALARGAN is to observe a strong adherence to the best practices of Corporate Social Responsibility (CSR). Its commitment to CSR is evident by its participation with the community in creating activities that aim to have a positively constructive impact in the society. ALARGAN's initiatives are designed to engage the community as well as to increase accessibility and awareness of environmental, cultural, social and educational issues.

## Leadership in Energy and Environmental Design (LEED)

Since joining the U.S. Green Building Council (USGBC) in 2007, ALARGAN has applied the highest standards in the field of energy and environmental design for its buildings, homes and communities, all of which are designed, constructed, maintained and operated to improve environmental and human health performance. As a testimony to this environmental commitment, ALARGAN

International Head Quarters (located within its very own prestigious water-front office complex - 'Argan Business Park' in Shuwaikh – Kuwait Free Trade Zone) has been awarded the LEED Platinum certification for Commercial Interiors - the first of its kind in Kuwait to receive such recognition.

## Kuwait Green Building Council (KGBC)

With the increase in environmental awareness, there is an urgent need to employ green building practices and to develop councils concerning green buildings around the world. In recognition of the importance of this matter, ALARGAN has worked on the initiative and has helped to establish the Kuwait Green Building Council - a national, non-profit organization that is committed to develop a sustainable property sector in Kuwait.

With its expertise in real estate development, ALARGAN aims to increase awareness of the effective use of resources and to develop houses and commercial buildings characterized by reduced energy consumption and other environmental attributes. Moreover, to boost the 'Eco-Green Building' concept in Kuwait, ALARGAN became a 'Silver Sponsor' at the 3<sup>rd</sup> Green Building Forum Event 2014.







## **Recycling Program**

In its effort to “Think globally, and act locally”, ALARGAN established a comprehensive recycling program in March 2009 to ensure proper disposal of all waste products in the office. In order to help reduce the per capita material waste in Kuwait, ALARGAN’s staff have participated in this initiative both in the office and at home. The program has achieved great success since its implementation, which has encouraged the company to expand the program throughout all ALARGAN office buildings.

way it provides a ‘source of life’ for the residents of the countries where the tree inhabits. As a way to promote environmental projects that can benefit both the science and business communities, ALARGAN International Real Estate Company has partnered with the ‘Kuwait Institute for Scientific Research’ (KISR) to plant 10,000 Argan trees in Kuwait. The aim is to show the dual benefit of this tree’s ability to combat desertification, and to enhance the production of the Argan oil.

## **Bayt Abdullah Children’s Hospice (BAACH)**

ALARGAN continues to provide financial and moral support to Bayt Abdullah Children’s Hospice (BAACH) - an organization that extends support and helps children who are terminally ill. ALARGAN has taken up the responsibility to complete the planting, landscaping and maintenance work of the grounds at the hospital in an effort to create a clean and therapeutic environment for the children.

## **Students Training Program**

Supporting the Kuwaiti youth is one of ALARGAN’s main priorities. The company is keen on providing undergraduates with work experience internships, in partnership with Lothan Youth Achievement Center (LOYAC) and the University of Kuwait. The program is designed to grant the youth unique opportunities to gain valuable, practical experience in a professional environment in conjunction with their academic studies. The program intends to encourage Kuwaiti youth to expand their knowledge as well as enhance their participation in the private sector.

## **‘ALARGAN’... Roots of Hope**

ALARGAN takes its name from the ARGAN Tree, otherwise known as the ‘Tree of Hope’ due to the



### **INJAZ - Kuwait**

Believing that young people are the most effective and active group in the community and the future leaders of tomorrow, ALARGAN is a proud sponsor of INJAZ Kuwait - a Kuwaiti non-profit organization that focuses on the development of educational programs. ALARGAN International Real Estate Company is an active member with INJAZ Kuwait, and currently has two members on its Board of Directors.

### **Entrepreneurship Master Class (EMC) & Innovation Camp by INJAZ**

ALARGAN sponsors the Entrepreneurship Master Class (EMC) and the Innovation Camp for INJAZ Kuwait - a one day training program aimed at introducing high school students to the concept of self-employment and entrepreneurship. The training program gives students the opportunity to meet the prominent businessmen and volunteers within the Kuwaiti business community. These programs are aimed at helping Kuwaiti youth develop the necessary skills to become decision makers of their own future businesses.

### **Model Arab League**

ALARGAN International Real Estate Company was the exclusive sponsor of the '2014 Model Arab League' recently held in Kuwait City. The event brought together students from across the Arab world to discuss and debate their views on the history and contemporary political environment of the region. The participants discussed a number of issues, particularly those pertaining to Arab youth. The '2014 Model Arab League' encouraged youth to engage in informed debate on international issues, to present their viewpoints, and to put forth their recommendations to further strengthen solidarity among the Arab people by negotiating solutions to problems faced by the Arab world.

ALARGAN's exclusive sponsorship of this high-profile event highlights our corporate social responsibility programs for the country and the Arab world through the promotion of positive dialogue on issues that concern the Arab people. The company is particularly focused on strengthening the skills of the region's youth, thereby shaping a new generation of young leaders who can make a positive change from within their countries.



### **Universities Art Competition – Chapter 1**

ALARGAN and in partnership with the United Nations Development Program in Kuwait launched the first Art Educational initiative in 2014 by developing a Student Art Competition on a country-wide scale for government and private universities in Kuwait. This initiative is another example of ALARGAN's commitment to develop the skills and talents of the youth and to emphasize the positive aspects of cooperation between the public and private sectors. The goal of this art competition is to improve the cultural activities associated with the "Fine Arts" here in Kuwait. Our objective is to build sustainable partnerships by establishing initiatives with the private sector intended for the benefit of Kuwait's society.

months where it was viewed by thousands of visitors and was reviewed in numerous magazine publications. ALARGAN supported the production of a new video and mix media installation that combines stock footage and CGI animation to create a kind of sensational introduction to the work of GCC.

The donation by ALARGAN has ensured that the video will be seen at foundations and museums around the world. The video work 'CO-OP' debuted at the MOMA PS1 exhibition in New York and went on to be shown in Paris and Beijing. The video has become part of the permanent collections of both the Whitney Museum of American Art in New York and the Kunst museum in Lichtenstein. It is currently on loan to the Musée d'Art Moderne Grand-Duc Jean in Luxembourg.

### **Youth Designers and Photographers – New York**

ALARGAN financially sponsored Kuwaiti youth artists participating at the MOMA PS1 exhibition that took place in New York in March 2014. ALARGAN's donation allowed a number of young Arab Gulf artists to experience the exciting distinction of having a solo show at the prestigious contemporary art museum. The exhibition was on view for seven



# Executive Management



## **Khaled Al-Mashaan | Vice Chairman and CEO**

Mr. Khaled Al-Mashaan has three decades of experience in civil engineering and real estate development. In 1994, Mr. Al-Mashaan founded ALARGAN, a pioneering real estate development company focused on quality affordable, middle income housing and commercial outlets within the GCC region. Under his leadership, ALARGAN has grown from a family-owned business into a publicly listed company on the Kuwait Stock Exchange. He received his Bachelor of Science in Civil Engineering from California State University in Los Angeles. He also successfully completed the Financial Management Program and the Advanced Management Development Program in Real Estate at Harvard University Graduate School of Design.



## **Mohammed Al-Matook | Senior Vice President – Leasing**

Mr. Mohammed Al-Matook has held various positions in different fields throughout his 15-year career. He previously worked as a Leasing Manager in MABANEE Company where he managed the leasing team and processes of the iconic shopping center The Avenues (Phases I & II) and earlier as an Assistant Vice President in the Business Development with Global Investment House, taking part in significant accomplishments such as conceptualizing, establishing and raising capital for a number of startups (i.e. Mazaya, Iskan, Gulf Franchising Co, etc.). Mr. Al-Matook holds an MBA from Florida International University and a Bachelor degree in Civil Engineering from Florida Institute of Technology.



## **Meshaan Al-Meshaan | Chief Business Development Officer**

Mr. Meshaan Al-Meshaan's main experience lies in the areas of banking and real estate. Mr. Al-Meshaan began his career in 2000 at the National Investors Group (NIG), a private equity subsidiary of the National Bank of Kuwait (NBK). Based in New York, his responsibilities included sourcing, analyzing potential equity and fund investments, including monitoring the group's USD 150 million portfolio. Prior to joining ALARGAN, he was part of NBK's Treasury Department, where he gained his ACI Dealing Certificate, and was responsible for servicing the bank's treasury products, and assisted in managing its USD 1 billion money market funds. He currently serves on the Board of several of ALARGAN's affiliate's, and is an active board member of INJAZ, an NGO focused on educational programs for future generations. Mr. Al-Meshaan received his Bachelor of Science in International Business from the University of Denver, Colorado.



## **Walid Amin | Chief Financial Officer**

Mr. Walid Amin joined ALARGAN in 2006. Having over 10 years of experience at one of the leading global institutions in accounting, auditing and consultancy services, Mr. Amin has participated in several major auditing engagements covering a variety of industries such as real estate, banking, investment, industrial, manufacturing, retail and oil and gas sector. He has designed accounting systems, internal control systems and provided accounting consultancy services to numerous companies. Mr. Amin has also participated in the preparation of several individual and corporate claims for compensation resulting from the Iraqi invasion of Kuwait submitted to the UN Compensation Committee. He has also coordinated the listing of several shareholding companies including the preparation of the related prospectuses in the Kuwait Stock Exchange. Mr. Amin holds a Bachelor of Commerce degree with an Accounting Major from Cairo University.



### **Mahmoud Ammach | Senior Vice President – Sales and Marketing**

Mr. Mahmoud Ammach works on planning and implementation of sales, marketing and product development programs for ALARGAN, both on short and long terms across corporate and projects levels targeted toward existing and new markets. With more than 10 years' experience in the field of sales and marketing Mr. Ammach earlier held multiple strategic positions with reputable multinational and local companies, focusing on marketing, commercialization, distribution and regional sales management across the GCC. Mr. Ammach holds a Bachelor's degree in Banking and Finance from Excelsior College, University of New York and an Associate in Applied Science Business Management degree from the Lebanese American University, in addition to several certifications in sales and marketing from reputable institutions in Europe.



### **Ramy Echo | Chief Investment Officer**

Mr. Ramy Echo is the Chief Investment Officer of ALARGAN International Real Estate Company. He manages the company's and clients' investments and handles project and corporate financing. Mr. Echo has over 19 years of experience in real estate, consulting and banking. He managed many debt and equity capital market transactions. He also advised on privatizations, private equity, mergers and acquisitions. Earlier in his career, Mr. Echo financed projects and corporations with Bank Audi and advised banks and financial regulators with Deloitte Consulting. Mr. Echo holds Masters in Finance from ESA and ESCP Europe. He has also conducted his executive education at INSEAD and completed the Advanced Managed Development Program at Harvard.



### **Raed Kolta | Senior Vice President – Project Planning and Development**

Mr. Raed Kolta has over 16 years' experience in the fields of real estate, investment management, financial consulting and corporate strategy. Mr. Kolta previously was an investment manager with Rasan Real Estate covering investments in the MENA and Gulf regions. Earlier, he managed multiple private equity investments as an associate partner at KGL Investment Company. He also held the role of a team leader for several touristic projects in Lebanon and Syria at MAK Investments Co. He also acted as a senior analyst at Tatweer in Jeddah and conducted several investment seminars at the Jeddah Chamber of Commerce. Mr. Kolta holds two MBA degrees in "Accounting and Finance" and "Marketing Management" and holds the Certified Financial Manager (CFM) and Certified Management Accountant (CMA) designations from the Institute of Management Accountants, USA.



### **Sherif Omara | Deputy CEO – Finance**

Mr. Sherif Omara has over 23 years of experience in accounting, finance and investment fields. He joined ALARGAN International Real Estate Company in 2000, bringing with him a wide range of experience from reputable leading GCC Companies. He is also responsible for monitoring the development of the Group's financial strategies, arranging financial facilities for the Group, overseeing the financial and accounting policies. In addition, he is supervising, regulating the Group's financial and accounting systems and financing structures. Mr. Omara holds a Bachelor of Commerce degree with an Accounting Major from Ain Shams University – Egypt.



### **Khaldoon Rashid | Head of Legal Department**

Mr. Khaldoon Rashid has over 12 years' experience in the legal field and in providing legal advice. Prior to ALARGAN, Mr. Rashid worked in well-known prestigious law firms and leading real estate and investment companies including Global Investment House as a Legal Consultant where he was responsible for the company's activities and subsidiaries legal affairs inside and outside Kuwait. Mr. Rashid is experienced in providing legal advice, preparation, drafting and reviewing legal contracts in various fields including corporate, commercial, real estate development, construction and investment contracts as well as commercial agencies, conventional banking and Islamic finance. He is a member of the Jordanian Bar Syndicate since 2001. Mr. Rashid has a Bachelor's degree in Law from Applied Science University in Amman and obtained his Masters in Commercial Law from Aberdeen University, Scotland.

# Management Discussion and Analysis

Well managed resources, market experience and risk evaluation give ALARGAN an edge over its competitors in the real estate market as it provides high quality real estate solutions for middle-income citizens in the GCC at affordable prices. ALARGAN's innovative designs are in line with the specific market mechanisms and requirements.

## Real Estate Development in Kuwait

Striving to diversify investments as it improves its income-generating real estate portfolio, ALARGAN signed an agreement at the end of 2012 to develop a shopping complex for retail shops, 'ARGAN Square' with an area of 7,000 square meters based on a private 30 years lease structure. The rental space is estimated at 10,000 square meters - and the building space at 13,000 square meters.

## ARGANA Resorts and Hotels Company

ARGANA is considered to be the hospitality arm of ALARGAN, established in 2006 and manages assets in the hotel and hospitality sector. These integrated projects are built in ideal locations - situated near touristic destinations in Kuwait with iconic distinguished views along the Arabian Gulf. The projects include: 'Movenpick Hotel and Resort Al Bida'a' (306 rooms), 'Rimal Hotel and Resort' (115 rooms), 'C-Club', and the contemporary commercial destination 'ARGAN Al Bida'a'.

ARGANA Resorts and Hotels Company maintained the volume of its revenues from hotels and shop rentals in 2014. The net profit from rent reached KD 6.4 million in 2014. It is worth mentioning that the hotel revenues did not increase in 2014 as a result of maintenance work carried out at the Movenpick Hotel.

## ALARGAN National General Trading and Contracting Company

ALARGAN National General Trading and Contracting Company has maintained its reputation



ARGAN Al Bida'a - Kuwait



as a leading construction company in Kuwait since its inception. Driven by its commitment to the highest professional standards, the company has managed to finish in 2014 several local projects. The value of finished projects reached KD 23.75 million. The company also signed contracts for several other projects with a total value of KD 14.33 million. In 2014, the company's ratings for electrical works have also improved to the Second Level at the Central Tenders Committee. Meanwhile, during 2014 the company recorded total revenue of KD 7.19 million. ALARGAN National established a new company in Qatar with a capital of QR 200,000 as part of an effort to expand activities and develop new projects in different countries.

### **ALARGAN Gulf Real Estate Services Company**

ALARGAN Gulf Real Estate Services Company has been very successful as it soars to new heights. The company, in cooperation with Spain's Aspasius Real Estate Company, recently took to market properties in Marbella, Spain and in Kuwait - offering an opportunity for buyers to select properties according to their purchasing power.

Last year, the company marketed, leased and resold several real estate projects in different areas, including the 'Naseem Salalah' project that offered payment facilities for clients in Kuwait and Oman. Meanwhile, 100% of the total commercial space at 'ALARGAN Al Bida'a' project has been rented. The company also managed to meet all its obligations in offering competitive services in property management. Additionally, its sales team sold 100% of the 'Jeyoun Townhouse' project, and launched the marketing campaign for the commercial part of the 'ALARGAN Village' in Bu Quwah, Bahrain. 16% of the project have already been rented while the company continues to evaluate other renting applications.

In Oman, ALARGAN Gulf Real Estate Services Company sold 60% of the housing units in phase 2 of the 'Al Waha' project, which include 79 villas. The company sold 82 housing units from the 'Naseem Salalah' project in a record time. Regarding the 'Beyout Al-Faye' project, the team managed to sell 70% of units in phase two. Lastly, and one of the most successful projects, the 'Telal Al-Qurum' project, has had 81% of units sold in the third phase.

The total value of sales of ALARGAN Gulf Real Estate Services Company reached nearly KD 3

million in Kuwait, and BD 1.5 million in Bahrain. The sales in Oman alone reached a record OMR 14.3 million in 2014.

### **ALARGAN Real Estate Project Management Company**

ALARGAN Real Estate Project Management provides several architectural, design and project management services for real estate projects in and out of Kuwait, with a total development value of KD 47 million (a 45% increase in business size).

In addition, the company has presented the final designs for the third (100 units) and fourth (46 Townhouse) batches of the 'Telal Al-Qurum' project, and is currently collecting all licenses to start developing Batch 3. The company's team of architects has provided the final designs for the second phase of the 'Al Waha' project, in order to start development when the final licenses are obtained from the Municipality.

Worth mentioning that ALARGAN has been awarded the platinum certificate in leadership in Energy and Environmental design (LEED) presented by the USA Green Building Council (USGBC).



ARGAN Village - Bahrain

### **ALARGAN Bahrain**

ALARGAN Bahrain has maintained its success despite the economic challenges in the region. It has launched high quality real estate products at affordable prices in the market, creating a unique lifestyle that helps attract Bahraini families. For example, 'ARGAN Village' project, the commercial part of the 'Jeyoun' integrated project located at Bu Quwah, has been completed. Also, 100% of the project's residential part has been sold and leased. It is worth mentioning that the 'Jeyoun' project is considered one of ALARGAN Bahrain's most distinguished projects. It consists of a residential part that includes 82 Townhouses and a multipurpose commercial part that expands over an area of 18,000 square meters with a constructed area of 11,315 square meters. The project also includes several facilities, including a park located at its center. The project's total value is estimated at BD 16 million. The rented side of the commercial part has reached 16% (as of the end of 2014).

Additionally, the company has finished nearly 70% of the development of the 'ARGAN Village park', living space designed by Valley Crest, that offers safe areas for children and an entertainment center for adults.

### **ALARGAN TOWELL Investment Company – Oman**

ALARGAN TOWELL Investment Company provides the Omani society with innovative housing solutions at affordable prices.

In 2014, 72% of the total space for offices in the 'Qurm Gardens' project had been rented. As for the 'Beyout Al-Faye' project, the company has almost finished the site's developmental work. 98% of the second and final phase of the project, which includes 78 housing units, has also been finished.

Regarding the 'Telal Al-Qurum' project, the company has finished 85% of development for the





first phase, which includes 80 housing units. Works at the second phase are ongoing with 12% already finished. The third phase has already been launched due to the high demand response generated from the first two. This phase includes 100 residential apartments.

Meanwhile, construction works are ongoing at the first phase of the 'Al Waha' project. 80% of the first phase (33 villas) has been completed. The project can be described as an integrated residential compound that includes residential components and commercial buildings. It expands over 684,000 square meters in the state of Barka.

'Barka Resort' project, which has been classified as an Integrated Touristic Compound (ITC) by Oman's Ministry of Tourism, has a total area of 500,000 square meters. The Tourism Ministry has approved the project's general plan, and works are currently ongoing to obtain the licenses for the project's first phase. The project includes a 47,000 square meters artificial lake, which considered to be one of the main landmarks in the project.

## **ALARGAN Projects - Kingdom of Saudi Arabia**

Since its inception in 2006, ALARGAN Projects has specialized in developing integrated neighborhoods that include various types of villas and apartments in an environment that blends facilities including mosques, schools, and malls, with green spaces. This mix of life with nature reflects the aesthetic side of the company's projects and is the signature formula of the company's work. The company sought to provide residential solutions that combine innovative designs with competitive prices in keeping with our model. During 2014, more than 1,200 housing units in different projects were completed.

# Consolidated Financial Statements

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## Board Members Undertaking Regarding the Annual Financial Statements of ALARGAN International Real Estate Company - K.S.C. (Public) for the year ended December 31, 2014

Dear shareholders,

As per the Capital Markets Authority (CMA) Resolution No. (25) of 2013, regarding the issuance Corporate Governance Regulations for Companies Regulated by the (CMA) - Fourth rule: Safeguarding integrity in financial reporting, we hereby acknowledge that the financial statements of the company for the year ended December 31, 2014 presented fairly and have been prepared in accordance with International Financial Reporting Standards.

Best regards,

Haitham Al-Khaled  
Chairman

Khaled Al-Mashaan  
Vice Chairman & CEO

Hamad Al-Mudhaf  
Board Member

Mohammad Al-Othman  
Board Member

Tariq Al-Mutawa'a  
Independent Member

# INDEPENDENT AUDITORS' REPORT



**AL-WAHA**  
AUDITING OFFICE  
ALI OWAID RUKHAEYES

Member of The International Group of Accounting Firms

P.O. Box 27387 Safat  
13134 - State of Kuwait  
Telephone: (965) 22423415  
Facsimile : (965) 22423417



**RSM Albazie & Co.**

Public Accountants

Kuwait Airways Building, 7th floor, Shuhada Street,  
P.O. Box 2115, Safat - 13022, State of Kuwait  
T +965 22961000 F +965 22412761  
E mail@albazie.com W www.albazie.com

The Shareholders  
Al Argan International Real Estate Company - K.S.C. (Public)  
State of Kuwait

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Al Argan International Real Estate Company - K.S.C. (Public) (the Parent Company) and subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2014, and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the financial 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 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 of 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.

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 Al Argan International Real Estate Company - K.S.C. (Public) (the Parent Company) and subsidiaries (the Group) as of December 31, 2014, and its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards.

## 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, its amendments, its Executive regulations and the Parent Company's Articles and Memorandum of Incorporation 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 Directors' 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, 2014 of the Companies Law No. 25 of 2012 and its amendments, its Executive regulations and the Parent Company's Articles and Memorandum of Incorporation which might have materially affected the Group's financial position or results of its operations.

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

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

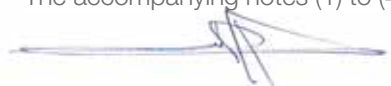
State of Kuwait  
March 26, 2015

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

|  | ASSETS | Note | 2014               | 2013               |
|--|--------|------|--------------------|--------------------|
| <b>Current assets:</b>   |        |      |                    |                    |
| Cash on hand and at banks  |        |      | 6,227,706          | 12,317,981         |
| Murabaha investments   |        | 3    | 921,867            | 805,867            |
| Gross amount due from customers for contract works                         |        | 4    | 2,410,969          | 3,319,472          |
| Accounts receivable and other debit balances                               |        | 5    | 7,812,898          | 7,076,011          |
| Due from related parties – current portion                                 |        | 6    | 16,598,614         | 8,482,595          |
| Land held for trading  |        | 7    | 7,723,762          | 8,193,487          |
| Inventory  |        | 8    | 323,233            | 301,491            |
|  |        |      | 42,019,049         | 40,496,904         |
| Assets classified as held for sale   |        | 9    | 15,933,590         | -                  |
| <b>Total current assets</b>  |        |      | <b>57,952,639</b>  | <b>40,496,904</b>  |
| <b>Non-current assets:</b>   |        |      |                    |                    |
| Due from related parties – non-current portion                             |        | 6    | 11,273,446         | 11,009,898         |
| Investment in associates   |        | 10   | 12,223,892         | 25,844,759         |
| Investment in unconsolidated subsidiaries                                  |        |      | -                  | 29,358             |
| Investments available for sale   |        | 11   | 285,092            | 495,464            |
| Development Properties   |        | 12   | 7,602,479          | 2,938,072          |
| Investment properties  |        | 13   | 58,651,053         | 58,868,532         |
| Right of utilization of land for development                               |        |      | 98,760             | 111,640            |
| Fixed assets   |        | 14   | 2,724,535          | 2,960,272          |
| <b>Total non-current assets</b>  |        |      | <b>92,859,257</b>  | <b>102,257,995</b> |
| <b>Total assets</b>  |        |      | <b>150,811,896</b> | <b>142,754,899</b> |
| <b>LIABILITIES AND EQUITY</b>  |        |      |                    |                    |
| <b>Current liabilities:</b>  |        |      |                    |                    |
| Due to banks   |        | 15   | 1,046,330          | 1,156,764          |
| Short term loans installments  |        | 16   | 6,705,456          | 3,427,568          |
| Short term Murabaha contracts installments                                 |        | 17   | 9,763,743          | 11,363,259         |
| Gross amount due to customers for contract works                           |        | 4    | 151,963            | 74,531             |
| Accounts payable and other credit balances                                 |        | 18   | 8,354,685          | 7,615,914          |
| Dividend payable   |        | 19   | 194,503            | 116,587            |
| <b>Total current liabilities</b>   |        |      | <b>26,216,680</b>  | <b>23,754,623</b>  |
| <b>Non-current liabilities:</b>  |        |      |                    |                    |
| Long term loans installments   |        | 16   | 25,000,000         | 27,000,000         |
| Long term Murabaha contracts installments                                  |        | 17   | 22,197             | 237,735            |
| Long term bonds  |        | 20   | 19,070,230         | 16,298,838         |
| Due to related parties – non-current portion                               |        | 6    | 2,348,423          | 2,367,023          |
| Provision for end of service indemnity                                     |        | 21   | 1,537,604          | 1,267,785          |
| <b>Total non-current liabilities</b>                                       |        |      | <b>47,978,454</b>  | <b>47,171,381</b>  |
| <b>Total liabilities</b>   |        |      | <b>74,195,134</b>  | <b>70,926,004</b>  |
| <b>Equity:</b>   |        |      |                    |                    |
| Share capital  |        | 22   | 26,500,000         | 26,500,000         |
| Share premium  |        | 23   | 15,811,095         | 15,811,095         |
| Statutory reserve  |        | 24   | 5,891,292          | 5,410,141          |
| Voluntary reserve  |        | 25   | 5,162,322          | 4,681,171          |
| Treasury shares  |        | 27   | (3,396,599)        | (3,430,274)        |
| Cumulative changes in fair value   |        |      | (2,899)            | (56,065)           |
| Foreign currency translation reserve                                       |        |      | 1,022,028          | (411,237)          |
| Effect of changes in other comprehensive income of associates              |        |      | 21,658             | 12,408             |
| Retained earnings  |        |      | 24,461,477         | 22,588,773         |
| Foreign currency translation reserve of assets classified as held for sale |        | 9    | 315,232            | -                  |
| Equity attributable to shareholders of the Parent Company                  |        |      | 75,785,606         | 71,106,012         |
| Non-controlling interest   |        |      | 831,156            | 722,883            |
| <b>Total equity</b>  |        |      | <b>76,616,762</b>  | <b>71,828,895</b>  |
| <b>Total liabilities and equity</b>  |        |      | <b>150,811,896</b> | <b>142,754,899</b> |

The accompanying notes (1) to (44) form an integral part of the consolidated financial statements



Haitham Suliman Hamood Al-Khaled

Chairman



Khaled Khudair Mashaan Khudair Al-Mashaan

Vice Chairman & CEO

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

FOR THE YEAR ENDED DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

|   | Note   | 2014             | 2013             |
|---|--------|------------------|------------------|
| <b>Continuing operations:</b>   |        |                  |                  |
| Net income from projects  | 28     | 58,224           | 828,111          |
| Net rental income   | 29     | 2,799,415        | 2,908,111        |
| Net income from resorts   | 30     | 3,585,496        | 3,540,926        |
| Share of results from associates  | 10     | 894,828          | 573,814          |
| Realized gain on sale of investment properties  | 13 - a | 192,053          | -                |
| Impairment loss for land held for trading   | 7      | (835,760)        | -                |
| Unrealized (loss) gain from changes in fair value of investment properties  | 13 - a | (1,496,717)      | 1,217,841        |
| <b>Operating gross profit</b>   |        | <b>5,197,539</b> | <b>9,068,803</b> |
| General and administrative expenses   | 31     | (3,776,771)      | (4,098,575)      |
| Depreciation and amortization   |        | (155,056)        | (172,389)        |
| Provision for doubtful debts  | 5 - b  | (68,419)         | (9,253)          |
| <b>Profit from operations</b>   |        | <b>1,197,293</b> | <b>4,788,586</b> |
| Net investment loss   | 32     | (83,737)         | (78,960)         |
| Interest income   |        | 23,153           | 17,042           |
| Finance charges   |        | (2,548,604)      | (2,860,248)      |
| Gain on sale of fixed assets  |        | 154              | 2,241            |
| Foreign exchange gain   |        | 7,953            | 1,847            |
| Other revenue   |        | 170              | 794              |
| (Loss) profit for the year from continuing operations   |        | (1,403,618)      | 1,871,302        |
| Profit for the year from discontinued operations  | 9      | 6,321,054        | 2,184,555        |
| <b>Profit for the year before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labor Support Tax (NLST), Zakat and Board of Directors' remuneration</b> |        | <b>4,917,436</b> | <b>4,055,857</b> |
| KFAS  | 33     | (9,251)          | -                |
| NLST  | 34     | (110,494)        | (120,946)        |
| Zakat   | 35     | (10,885)         | -                |
| Board of Directors' remuneration  | 36     | (25,000)         | -                |
| <b>Net profit for the year</b>  |        | <b>4,761,806</b> | <b>3,934,911</b> |
| Attributable to:  |        |                  |                  |
| Shareholders of the parent company  |        | 4,655,878        | 3,864,390        |
| Non-controlling interest  |        | 105,928          | 70,521           |
| Net profit for the year   |        | 4,761,806        | 3,934,911        |
| <b>Earnings per share related to the shareholders of the Parent Company (fils)</b>  | 37     | <b>18.17</b>     | <b>15.08</b>     |

The accompanying notes (1) to (44) form an integral part of the consolidated financial statements

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

|  | Note  | 2014             | 2013             |
|--|-------|------------------|------------------|
| Net profit for the year  |       | 4,761,806        | 3,934,911        |
| <b>Other comprehensive income (loss):</b>  |       |                  |                  |
| <u>Items that may be reclassified subsequently to profit or loss:</u>  |       |                  |                  |
| Changes in fair value of investments available for sale  | 11    | 53,166           | (100,839)        |
| Foreign currency translation differences   |       | 1,303,692        | 54,048           |
| Share of change in other comprehensive income from associates  | 10    | 11,595           | (12,555)         |
| Change in foreign currency translation differences for assets classified as held for sale                                | 9     | 470,364          | -                |
| Reversal of foreign currency translation reserve for asset classified as held for sale against partial sale of the asset | 9 - a | (25,559)         | -                |
| <b>Other comprehensive income (loss) for the year</b>  |       | <b>1,813,258</b> | <b>(59,346)</b>  |
| Total comprehensive income for the year  |       | <b>6,575,064</b> | <b>3,875,565</b> |
| Attributable to:   |       |                  |                  |
| Shareholders of the parent company   |       | 6,466,791        | 3,802,757        |
| Non-controlling interests  |       | 108,273          | 72,808           |
| Total comprehensive income for the year  |       | <b>6,575,064</b> | <b>3,875,565</b> |

The accompanying notes (1) to (44) form an integral part of the consolidated financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### Equity attributable to shareholders of the parent company

|  | Capital           | Share premium     | Statutory reserve | Voluntary reserve | Treasury shares    | Cumulative changes in fair value | Foreign currency translation reserve | Effect of changes in other comprehensive income of associates | Retained earnings | Foreign currency translation reserve of assets classified as held for sale | Sub total         | Non-controlling interest | Total             |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|----------------------------------|--------------------------------------|---|-------------------|--|-------------------|--------------------------|-------------------|
| Balance at December 31, 2012   | 26,500,000        | 15,811,095        | 5,011,607         | 4,282,637         | (3,420,920)        | 44,774                           | (465,285)                            | 27,250  | 21,315,569        | -  | 69,106,727        | 733,969                  | 69,840,696        |
| Total comprehensive (loss) income for the year                       | -                 | -                 | -                 | -                 | -                  | (100,839)                        | 54,048                               | (14,842)  | 3,864,390         | -  | 3,802,757         | 72,808                   | 3,875,565         |
| Dividend to non – controlling interest                               | -                 | -                 | -                 | -                 | -                  | -                                | -                                    | -   | -                 | -  | -                 | (60,000)                 | (60,000)          |
| Effect of acquisition of additional ownership interest of subsidiary | -                 | -                 | -                 | -                 | -                  | -                                | -                                    | -   | -                 | -  | -                 | (23,894)                 | (23,894)          |
| Purchase of treasury shares  | -                 | -                 | -                 | -                 | (9,725)            | -                                | -                                    | -   | -                 | -  | (9,725)           | -                        | (9,725)           |
| Sale of treasury shares  | -                 | -                 | -                 | -                 | 371                | -                                | -                                    | -   | (228)             | -  | 143               | -                        | 143               |
| Transferred to reserves  | -                 | -                 | 398,534           | 398,534           | -                  | -                                | -                                    | -   | (797,068)         | -  | -                 | -                        | -                 |
| Cash dividends 7% (Note 19)  | -                 | -                 | -                 | -                 | -                  | -                                | -                                    | -   | (1,793,890)       | -  | (1,793,890)       | -                        | (1,793,890)       |
| Balance at December 31, 2013   | 26,500,000        | 15,811,095        | 5,410,141         | 4,681,171         | (3,430,274)        | (56,065)                         | (411,237)                            | 12,408  | 22,588,773        | -  | 71,106,012        | 722,883                  | 71,828,895        |
| Total comprehensive income for the year                              | -                 | -                 | -                 | -                 | -                  | 53,166                           | 1,303,692                            | 9,250   | 4,655,878         | 444,805  | 6,466,791         | 108,273                  | 6,575,064         |
| Effect of assets classified as held for sale                         | -                 | -                 | -                 | -                 | -                  | -                                | 129,573                              | -   | -                 | (129,573)  | -                 | -                        | -                 |
| Purchase of treasury shares  | -                 | -                 | -                 | -                 | (12,215)           | -                                | -                                    | -   | -                 | -  | (12,215)          | -                        | (12,215)          |
| Sale of treasury shares  | -                 | -                 | -                 | -                 | 45,890             | -                                | -                                    | -   | (27,115)          | -  | 18,775            | -                        | 18,775            |
| Transferred to reserves  | -                 | -                 | 481,151           | 481,151           | -                  | -                                | -                                    | -   | (962,302)         | -  | -                 | -                        | -                 |
| Cash dividends 7% (Note 19)  | -                 | -                 | -                 | -                 | -                  | -                                | -                                    | -   | (1,793,757)       | -  | (1,793,757)       | -                        | (1,793,757)       |
| <b>Balance at December 31, 2014</b>                                  | <b>26,500,000</b> | <b>15,811,095</b> | <b>5,891,292</b>  | <b>5,162,322</b>  | <b>(3,396,599)</b> | <b>(2,899)</b>                   | <b>1,022,028</b>                     | <b>21,658</b>   | <b>24,461,477</b> | <b>315,232</b>   | <b>75,785,606</b> | <b>831,156</b>           | <b>76,616,762</b> |

The accompanying notes (1) to (44) form an integral part of the consolidated financial statements



**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

|  | 2014        | 2013        |
|--|-------------|-------------|
| <b>Cash flows from operating activities:</b>                               |             |             |
| (Loss) profit for the year from continuing operations                      | (1,403,618) | 1,871,302   |
| Profit for the year from discontinued operations                           | 6,321,054   | 2,184,555   |
| Adjustments:   |             |             |
| Depreciation and amortization  | 719,781     | 645,417     |
| Share of results from associates   | (894,828)   | (573,814)   |
| Share of results from associate related to discontinued operations         | (3,062,651) | (2,184,555) |
| Gain from partial sale of share in an associate                            | (3,258,403) | -           |
| Realized gain on sale of investment properties                             | (192,053)   | -           |
| Impairment loss for land held for trading                                  | 835,760     | -           |
| Unrealized loss (gain) from changes in fair value of investment properties | 1,496,717   | (1,217,841) |
| Provision for doubtful debts   | 68,419      | 9,253       |
| Net investment loss  | 83,737      | 78,960      |
| Finance charges  | 2,548,604   | 2,860,248   |
| Gain on sale of fixed assets   | (154)       | (2,241)     |
| Interest income  | (23,153)    | (17,042)    |
| Provision for end of service indemnity                                     | 377,111     | 354,093     |
|  | 3,616,323   | 4,008,335   |
| <b>Changes in operating assets and liabilities:</b>                        |             |             |
| Due from (to) customers for contract work                                  | 985,935     | (1,025,909) |
| Accounts receivable and other debit balances                               | (275,531)   | (734,921)   |
| Due from related parties   | (8,161,265) | (879,587)   |
| Inventory  | (21,742)    | (11,858)    |
| Accounts payable and other credit balances                                 | 51,470      | 992,062     |
| Cash (used in) generated from operations                                   | (3,804,810) | 2,348,122   |
| Payment for end of service indemnity                                       | (113,007)   | (86,717)    |
| Paid to NLST   | (187,615)   | -           |
| Paid to Board of Directors' remuneration                                   | (30,000)    | (30,000)    |
| Net cash (used in) generated from operating activities                     | (4,135,432) | 2,231,405   |
| <b>Cash flows from investing activities:</b>                               |             |             |
| Paid for Murabaha investments  | (116,000)   | -           |
| Paid for additions of land held for trading                                | (54,285)    | (124,551)   |
| Paid for purchase of investment available for sale                         | (14,107)    | -           |
| Paid for investment in unconsolidated subsidiaries                         | -           | (29,358)    |
| Paid for acquisition of additional ownership interest of subsidiary        | -           | (23,894)    |
| Paid for additions of development properties                               | (4,507,313) | (1,531,062) |
| Paid for additions of investment properties                                | (2,113,627) | (1,963,187) |
| Paid for purchase of fixed assets  | (471,875)   | (348,500)   |
| Proceeds from sale of investments available for sale                       | 191,908     | -           |
| Proceeds from sale of investment properties                                | 578,282     | -           |
| Proceeds from sale of fixed assets   | 865         | 12,931      |
| Proceeds from partial sale of an associate                                 | 4,524,757   | -           |
| Dividend income received from Investments available for sale               | 2,000       | 16,016      |
| Dividend income received from investment in associates                     | 154,369     | 283,010     |
| Dividend income received from associate related to discontinued operations | 990,635     | 1,000,203   |
| Interest income received from associate                                    | 23,153      | 17,042      |
| Net cash used in investing activities                                      | (811,238)   | (2,691,350) |

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTD.)**

FOR THE YEAR ENDED DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

|  | 2014        | 2013        |
|--|-------------|-------------|
| <b>Cash flows from financing activities:</b>           |             |             |
| Net movement in due to banks                           | (110,434)   | 1,156,764   |
| Net movement in loans installments                     | 1,277,888   | 12,880,901  |
| Net movement in Murabaha contracts installments        | (1,548,787) | (4,128,450) |
| Net movement in bonds                                  | 2,771,392   | 61,391      |
| Dividends paid to shareholders                         | (1,715,841) | (1,796,650) |
| Paid for purchase of treasury shares                   | (12,215)    | (9,725)     |
| Proceeds from sale of treasury shares                  | 18,775      | 143         |
| Dividend paid to non-controlling interests             | -           | (60,000)    |
| Net movement in due to related parties                 | (54,423)    | 448,815     |
| Finance charges paid                                   | (1,799,318) | (1,769,774) |
| Net cash (used in) generated from financing activities | (1,172,963) | 6,783,415   |
| Net (decrease) increase in cash on hand and at banks   | (6,119,633) | 6,323,470   |
| Effect of consolidation of subsidiaries                | 29,358      | 121,847     |
| Cash on hand and at banks at beginning of the year     | 12,317,981  | 5,872,664   |
| Cash on hand and at banks at end of the year           | 6,227,706   | 12,317,981  |

The accompanying notes (1) to (44) form an integral part of the consolidated financial statements

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### 1. Incorporation and activities of the parent company

Al Argan International Real Estate Co. - K.S.C. (Public) "The Parent Company", was incorporated as per Articles of Association of a Kuwaiti Shareholding Company (Closed) authenticated at the Ministry of Justice – Real Estate Registration and Authentication Department under Ref. No. 819/Volume 1 dated March 5, 2002. The incorporation General Assembly for the parent Company was held on April 8, 2002 and declared the final incorporation of the Company. The Parent Company was registered in the commercial register under Ref. No. 88093 dated March 13, 2002.

The Parent Company is listed in the Kuwait Stock Exchange.

The main activities of the Parent Company are as follows:

1. Owning, buying and selling real estates and lands and developing them in favour of the parent company inside and outside state of Kuwait, also managing properties for others without violating the articles stipulated in the existing laws that prohibit the trading in private residential plots as stipulated in those laws.
2. Owning, buying and selling real estate companies' shares only for the benefit of the parent company inside and outside Kuwait.
3. Conducting all kinds of real estate studies and consulting in accordance with the terms required to perform such services
4. Performing maintenance work related to buildings and real estates owned by the parent company which includes maintenance work, execution of civil, mechanical, electrical, elevators work, and air conditioning which ensure the safety of the buildings.
5. Organizing real estate exhibitions related to the Company's real estate projects according to Ministry's rules.
6. Establishing the real estate auctions in accordance with the Ministry's rules.
7. Owning and managing commercial shops and housing complexes.
8. Trading in construction materials and equipments.
9. Performing real estate construction which includes civil, mechanical, electrical, sanitary, elevators, air conditioning, aluminum and carpentry contracting work for real estates owned by the parent company and by others.
10. Importing all construction equipment related to the parent company's works.
11. Owning, managing, renting and leasing hotels, health clubs and touristic resorts.
12. Managing, operating, investing, renting and leasing hotels, clubs, motels, hospitality houses, rest houses, parks, gardens, exhibitions, restaurants, cafeterias, housing complexes, touristic and health resorts, entertainment and sports projects and shops at all levels and grades including all main and auxiliary services and any other related services.
13. Establishing and managing investment funds (subject to the Central Bank of Kuwait approval).
14. Direct contribution in infrastructure projects for areas, housing, commercial and industrial projects under BOT system (Build, Operate, Transfer) and managing real estate facilities under BOT system.
15. Using the available financial surplus of the company by investing them in portfolios managed by specialized companies and entities.

The Parent Company is allowed to conduct the above-mentioned activities inside or outside State of Kuwait on its own or as an agent for other parties. The 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 Company in achieving its objective in Kuwait and abroad, and may establish, participate in or acquire these institutions or have them affiliated to it.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

According to the Shareholders' Extraordinary General Assembly meeting held on June 1, 2014 the Parent company had complied with the requirements of the Companies' Law No. 25 of 2012 and its subsequent amendments and executive regulations and amend its article of association and article of incorporation, these amendments were registered in the commercial register on August 11, 2014.

The Company's registered address is P.O. Box 8904, Al-Salmiya 22060, State of Kuwait.

The total number of employees of the Parent Company as of December 31, 2014 is 61 employees (December 31, 2013 – 63 employees).

The consolidated financial statements were authorized for issue by the Board of Directors on March 26, 2015. The accompanying consolidated financial statements are subject to approval from the parent company's shareholders' General Assembly Meeting. 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:

### a) Basis of preparation

The consolidated financial statements are presented in Kuwaiti Dinars which is the functional currency of the Parent Company and are prepared under the historical cost convention, except for quoted available for sale investments and investment properties that are stated at their fair value. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The 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(y).

### Standards and Interpretations issued and effective

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 of January 1, 2014:

#### Amendments to IAS 32 - Offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right of set off" and "simultaneous realization and settlement". The amendment did not have an impact on the consolidated financial statements for the Group.

#### Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

These amendments are not expected to have any material impact on the consolidated financial statements.

#### Amendments to IAS 36 – Recoverable amount disclosures for non-financial assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or CGU is measured at fair value less costs of disposal. These new disclosures include fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosures required by IFRS 13 Fair Value Measurements.

These amendments are not expected to have any material impact on the consolidated financial statements.

### Standards and Interpretations issued but not effective

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

#### IFRS 9 - Financial Instruments

The standard, effective for annual periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 specifies how an entity should classify and measure its financial instruments and includes a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

#### IFRS 15 - Revenue from contracts with customers

The standard, effective for annual periods beginning on or after January 1, 2017, establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the following existing standards and interpretations upon its effective date:

- IAS 18 – Revenue,
- IAS 11 – Construction Contracts,
- IFRIC 13 – Customer Loyalty Programs,
- IFRIC 15 – Agreements for the Construction of Real Estate,
- IFRIC 18 – Transfers of Assets from Customers, and,
- SIC 31 – Revenue-Barter Transactions Involving Advertising Services

#### Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization

The amendments, effective prospectively for annual periods beginning on or after January 1, 2016, clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

#### Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture

The amendments address a conflict between the requirements of IAS 28 'Investments in Associates and Joint Ventures' and IFRS 10 'Consolidated Financial Statements' and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. They are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

These amendments are not expected to have any material impact on the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### b) Principles of consolidation

The consolidated financial statements include the financial statements of the AL Argan International Real Estate Company – K.S.C.(Public) (The parent Company) and its subsidiaries (the “Group”) as follows:

| Name of Subsidiaries   | Country of incorporation | Percentage of holding |        |
|--|--------------------------|-----------------------|--------|
|  |                          | 2014                  | 2013   |
| 1. Al Argan National General Trading and Contracting Co.- W.L.L. and the following subsidiaries: | Kuwait                   | 99%                   | 99%    |
| 1A. Al Argan National Contracting Co. – O.P.C.   | Bahrain                  | 100%                  | 100%   |
| 1B. Al Argan for Swimming Pools Co. – W.L.L.   | Kuwait                   | 99.80%                | 99.80% |
| 1C. Al Argan for Heavy Equipments Co. – W.L.L.   | Kuwait                   | 99.80%                | 99.80% |
| 1D. Al Argan National Trading and Contracting Co. – W.L.L.                                       | Qatar                    | 99.99%                | -      |
| 2. Argana for Resorts and Hotels Co. - K.S.C.(Closed) and the following subsidiary:              | Kuwait                   | 99.95%                | 99.95% |
| 2A. Coast Hotel Co. – W.L.L.   | Kuwait                   | 99.99%                | 99.99% |
| 3. Al Jood Holding Co. – B.S.C.  | Bahrain                  | 99%                   | 99%    |
| 4. Al Argan Investment Real Estate Co. – E.S.C.  | Egypt                    | 98%                   | 98%    |
| 5. Al Argan Holding Co.- K.S.C.(Holding)   | Kuwait                   | 99%                   | 99%    |
| 6. Health Plus Trading Co. – W.L.L.  | Kuwait                   | 60%                   | 60%    |
| 7. Al Argan International Real Estate Limited Company  | United Kingdom           | 100%                  | 100%   |
| 8. Al Argan Landscaping Company – W.L.L.   | Kuwait                   | 99.67%                | 99.67% |
| 9. Al Argan Gulf Real Estate Services – K.S.C. (Closed)  | Kuwait                   | 50%                   | 50%    |
| 10. Al Argan Real Estate Project Management Company – K.S.C. (Closed)                            | Kuwait                   | 50%                   | 50%    |
| 11. Shams Al Fouz Real Estate Co. – W.L.L.   | Bahrain                  | 99%                   | 99%    |
| 12. Telal Alqurom Real Estate Co. – W.L.L.   | Oman                     | 99.50%                | 99.50% |
| 13. Support Real Estate Co. – W.L.L.   | Kuwait                   | 99.99%                | 99.99% |
| 14. Jenan United Real Estate Co. – W.L.L.  | Kuwait                   | 99.99%                | 99.99% |
| 15. Masaken National Co. – W.L.L.  | Saudi Arabia             | 99.95%                | 99.95% |
| 16. GCC Property Fund I  | Saudi Arabia             | 99.99%                | 99.99% |
| 17. Zelal Alqurom Real Estate Co. – W.L.L.   | Oman                     | 99.50%                | -      |
| 18. Naseem Salalah Residence Project Co. – W.L.L.  | Oman                     | 99.50%                | -      |

There are no subsidiaries which have material non - controlling interests.

Subsidiaries (investees) are those enterprises controlled by the Parent Company. Control is achieved when the Parent Company:

- has power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the company, other vote holders or other parties;



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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.

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 Parent 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:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- 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; and
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings as appropriate.

During the year ended December 31, 2014, the Parent Company consolidated the financial statements of:

- AL Argan National trading and contracting Co.- W.L.L. – Qatar.
- Zelal Alqurom Real Estate Co. – W.L.L. – Sultanate of Oman.
- Naseem Salalah Residence Project Co. – W.L.L. – Sultanate of Oman.

The accompanying consolidated financial statements for the year ended December 31, 2014 include the following financial statements relating to the above subsidiaries, while the comparative figures do not include such information, which are as follows:

### Consolidated statement of financial position:

Cash on hand and at banks  
Accounts payable and other credit balances

December 31,  
2014

64,021  
(644)

### Consolidated statement of profit or loss:

General and administrative expenses

December 31,  
2014

(644)



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### c) Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities carried on the consolidated statement of financial position include cash on hand and at banks, Murabaha investments, accounts receivable, due from (to) related parties, investment available for sale, due to banks, short and long term loans installments, short and long term Murabaha contracts installments, long term bonds 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) Murabaha Investments

Murabaha represents the amounts due to receive for financed assets for others on deferred basis as per Murabaha facility agreements. Murabaha balances are reported with full debit balances after deducting finance income amounts pertaining to future periods. Those finance income balances are amortized on a time apportionment basis using effective interest method.

#### c/2) Accounts receivable

Receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business and is recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of profit or loss.

#### c/3) Investments

The Group classifies its investments as investments available for sale. 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

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 on 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 profit or loss.

##### Subsequent measurement

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

Realized gain and losses are recognized in the statement of profit or loss. 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 other 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 other comprehensive income is transferred to the consolidated statement of profit or loss.

### Derecognition

An investment (in whole or in part) is derecognized either when:

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

### Impairment

The Group assesses at the end of each reporting period whether there is 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 decline 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 profit or loss – is removed from the consolidated other comprehensive income and recognized in the consolidated statement of profit or loss. Impairment losses recognized in the consolidated statement of profit or loss on available for sale equity instruments are not reversed through the consolidated statement of profit or loss.

### **c/4) 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 profit or loss 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/5) Murabaha contracts**

Murabaha represents the amounts due to pay for purchased assets for others on deferred basis as per Murabaha facility agreements. Murabaha balances are reported with full credit balances after deducting finance charges amounts pertaining to future periods. Those finance charges balances are amortized on a time apportionment basis using effective interest method.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### c/6) Accounts payable

Accounts payable 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.

### c/7) Financial Liabilities:

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or financial liabilities other than at fair value through profit or loss. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value which is at cost, plus directly attributable transaction costs. Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

The Group had classified its bonds as financial liabilities other than at fair value through statement of profit or loss.

After initial recognition, financial liabilities other than at fair value through profit or loss, which represent interest bearing bonds are subsequently measured at amortized cost using the effective interest rate. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in interest expense in the Interim condensed consolidated statement of profit or loss. The bonds issue cost are amortized over the bonds life of five years from the date of issuing the bonds.

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

### d) Due from (to) customers for contract work

Gross amount due from (to) customers for contract work represents the net amount of costs incurred plus recognized profits, less the sum of recognized losses and progress billings for all contracts in progress. Cost comprises direct materials, direct labor and an appropriate allocation of overheads. For contracts where progress billings exceed costs incurred plus recognized profit (less recognized losses), the excess is included under liabilities.

### e) Land held for trading

Land held for trading are valued at the lower of historical cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the cost of completion and selling expenses.

### f) Inventory

#### f/1 - Material in Stores:

Inventory is valued at the lower of cost or net realizable value after providing allowances for any obsolete or slow-moving items. Costs comprise direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on a weighted average basis.

Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Write-down is made for obsolete and slow-moving items based on their expected future use and net realizable value.

#### f/2 - Plants Inventory:

Plants Inventory is valued at net realizable value. The net realizable value is the estimated selling price in the ordinary course of business less the cost of preparation and selling expenses, if any.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### g) Non-current assets held for sale

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. Non-current assets once classified as held for sale are not depreciated or amortized.

Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in the consolidated profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Non-current assets that cease to be classified as held for sale (or cease to be included in a disposal group classified as held for sale) are measured at the lower of:

- a) its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale, and
- b) its recoverable amount at the date of the subsequent decision not to sell.

### h) Discontinued operations

A discontinued operation is a component of the Group's business, the operational results and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as discontinued operations.

In the consolidated statement of profit or loss of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit, even when the Group retains a non controlling interest in the subsidiary after the sale. The resulting profit or loss is reported separately in the consolidated statement of profit or loss.

### i) Investment in associates

Associates are those entities in which the Group have significant influence which is the power to participate in the financial and operating policy decisions of the associate. Under the equity method, investment in associates are carried in the consolidated statement of financial position at cost as adjusted for changes in the Group share of the net assets of the associate 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 as per IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

The Group recognizes in its consolidated statement of profit or loss for its share of results of operations of the associate and in its other comprehensive income for its share of changes in other comprehensive income of associate.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Losses of an associate in excess of the Group interest in that associate (which includes any long-term interests that, in substance, form part of the Group net investment in the associate) are not recognized except to the extent that the Group 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 interest in the associate.

Any excess of the cost of acquisition over the Group 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's share of the net fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized immediately in the consolidated statement of profit or loss.

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 profit or loss.

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 profit or loss.

### j) Development properties:

Properties acquired, constructed or in the course of construction for sale are classified as development properties. Development properties are stated at the lower of cost and net realizable value. The cost of development properties includes the cost of land, construction cost, related finance charges and other related expenditure, which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less cost to be incurred in selling the property.

### k) 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 profit or loss 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 profit or loss.

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.

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.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### l) Right of utilization of land for development

The Group recognizes an intangible asset arising from a service concession arrangement when it has a right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition.

Subsequent to initial recognition the intangible asset is measured at cost, which includes capitalized borrowing costs, less accumulated amortization and accumulated impairment losses. The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period in which the right of utilization period ending on December 31, 2022.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### m) Fixed assets

The initial cost of fixed assets 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 fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated statement of profit or loss 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 fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets. Fixed assets 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 profit or loss.

Depreciation is computed on straight line basis over the estimated useful lives of fixed assets as follows:

|                               | <u>Depreciation<br/>percentage %</u> |
|-------------------------------|--------------------------------------|
| Al-Abdali Farm buildings      | 25                                   |
| Buildings                     | 25                                   |
| Hotel's furniture and fixture | 10                                   |
| Computer software             | 33.33                                |
| Decorations                   | 20– 25                               |
| Tools and equipments          | 10– 25                               |
| Vehicles and equipment        | 10– 25                               |
| Furniture and fixture         | 25                                   |

The cost of building constructed on lands leased from others is depreciated using a straight line basis over the life of the rent contract of leased land for 20 years.

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 fixed assets.

An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

### n) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 profit or loss, 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 (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of profit or loss, 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.

### **o) Dividend distribution to the parent Company shareholders**

The Group recognizes a liability to make cash and non-cash distributions to shareholders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Group. A distribution is authorized when it is approved by the shareholders of the Parent company at the Annual General Meeting. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognized directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of profit or loss.

Distributions for the year that are approved after the reporting date are disclosed as an event after the date of consolidated statement of financial position.

### **p) Provision for end of service indemnity**

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector, employee contracts and the applicable labor laws in the countries where the subsidiaries operate. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of the reporting period, and approximates the present value of the final obligation.

### **q) Share capital**

Ordinary shares are classified as equity.

### **r) 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, reserves, and then share premium.

Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of share premium, 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.



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Where any Group's company 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 shareholders.

### s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and 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.

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.

#### Sale of goods

Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when significant risks and rewards of ownership of goods are transferred to the buyer. The Group does not operate any loyalty programs.

#### Rendering of services

Revenue from maintenance contracts is recognized when the service is rendered.

#### Construction contracts

Revenue from construction contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. Profit is only recognized when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. Claims, variation orders and incentive payments are included in the determination of contract profit when approved by contract owners. Anticipated losses on contracts are recognized in full as soon as they become apparent.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

#### Sale of properties under development

The Group recognize the revenue from sale of properties that are developed by the company directly or through subcontractors in order to perform its contractual obligation to deliver the real estate to the buyer when all the following conditions have been satisfied:

- Transferred the significant risks and rewards of ownership to the buyer and not necessary to coincides with the transfer of the legal title or the passing of possession to the buyer.
- The Company does not retain effective control over the properties sold.
- The buyer is committed and unable to require a refund except for non-delivery of the unit. Management believes that the likelihood of the company being unable to fulfill its contractual obligations for these reasons is remote.
- The aggregate sales proceeds and costs incurred or to be incurred can be reasonably estimated.

#### Revenue from projects shared with others

Revenue from projects shared with others is recognized after completing the projects and selling housing units based on the percentage of the Company's share in these projects which represents the cost of construction, finishing and preparing the housing units for sale to the total projects cost.

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### Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

### Dividend income

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

### Rent

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

### 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 date.

### Other income and expenses

Other income and expenses are recognized on accrual basis.

### **t) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are expensed in the consolidated statement of profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### **u) 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 reporting period 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.

### **v) 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 end of reporting period 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 consolidated statement of profit or loss for the period. Translation differences on non-monetary items such as equity investments which are classified as investments at fair value through profit or loss are reported as part of the fair value gain or loss. 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 other comprehensive income.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the end of reporting period. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in other comprehensive income.

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Such translation differences are recognized in consolidated statement of profit or loss in the period in which the foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### w) Contingencies

Contingent liabilities are not recognized in the financial statements unless it is probable as a result of past events that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Else, they are disclosed unless the possibility of an outflow of resources embodying economic losses is remote.

Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits as a result of past events is probable.

### x) 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.

### y) 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.

##### (ii) Determination of contract cost:

Determination of costs which are directly related to the specific contract or attributable to the contract activity in general requires significant judgment. The determination of contract cost has a significant impact upon revenue recognition in respect of long term contracts. The Group follows guidance of IAS 11 for determination of contract cost and revenue recognition.

##### (iii) Classification of Land

Upon acquisition of land, the Group classifies the land into one of the following categories, based on the intention of the management for the use of the land:

##### 1) Properties held for trading:

When the intention of the Group is to sell land in the ordinary course of business, the land are classified as properties held for trading.

##### 2) Development properties:

When the intention of the Group is to develop land in order to sell it in the future, both the land and the construction costs are classified as properties under development.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 3) Investment properties:

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

### (iv) Provision for doubtful debts and inventory:

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

### (v) Classification of investments:

On acquisition of an investment, the Group decides whether it should be classified as “at fair value through profit or loss”, “available for sale” or “held to maturity”. The Group follows the guidance of IAS 39 on classifying its investments.

The Group classifies investments as “at fair value through profit or loss” if they are acquired primarily for the purpose of short term profit making or if they are designated at fair value through profit or loss at inception, provided their fair values can be reliably estimated. The Group classifies investments as “held to maturity” if the Group has the positive intention and ability to hold to maturity. All other investments are classified as “available for sale”.

### (vi) 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.

### (vii) Application of IFRIC 15 – Agreements for the construction of real estate

The determination whether the agreements within the scope of IAS 11 – Construction Contracts or IAS 18 – Revenue require significant judgment.

## **b. Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimating uncertainty at the end of the reporting period 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) Long term contracts:

Revenue from long term contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. The revenue recognition as per the above criteria should correspond to the actual work completed. The determination of estimated costs and the application of percentage of completion method involve estimation. Further, the budgeted cost and revenue should consider the claims and variations pertaining to the contract.

### (ii) Provision for doubtful debts and inventory:

The extent of provision for doubtful debts and inventories involves estimation process. Provision for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The carrying cost of inventories is written down to their net realizable value when the inventories are damaged or become wholly or partly obsolete or their selling prices have declined. 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 and inventory are subject to management approval.

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(iii) Valuation of properties held for trading:

Properties held for trading is stated at the lower of cost and net realizable value (NRV). NRV for completed land held for trading is assessed by reference to market conditions and prices existing at the reporting date and is determined by the Group, based on comparable transactions identified by the Group for properties in the same geographical market serving the same real estate segment. NRV in respect of property under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction, estimated costs to sell the property, and an estimate of the time value of money to the date of completion.

(iv) Valuation of investment properties:

The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statement of profit or loss. Two main methods were used to determine the fair value of investment properties:

- (a) Formula based discounted cash flow is based on a series of projected free cash flows supported by the terms of any existing lease and other contracts and discounted at a rate that reflects the risk of the asset.
- (b) Comparative analysis is based on the assessment made by an independent real estate appraiser using values of actual deals transacted recently by other parties for properties in a similar location and condition, and based on the knowledge and experience of the real estate appraiser.

(v) Impairment of non-financial assets

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. Murabaha investments

Murabaha investments earn annual return ranging between 1.238% to 2.06% per annum as of December 31, 2014 (2013 – 0.5% to 2% per annum), these deposits have an average maturity of 365 days (2013: 365 days).

Murabaha investments amounting to KD 820,707 as of December 31, 2014 (2013 - KD 755,000) were pledged against facilities from a local bank, in which amount of KD 755,000 (2013 – KD 755,000) were pledged against Murabaha contract installments – (Note 17).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 4. Gross amount due from (to) customers for contract work

|   | 2014             | 2013             |
|---|------------------|------------------|
| Contract costs incurred to date plus recognized profits | 24,588,506       | 17,870,155       |
| Progress billings                                       | (22,329,500)     | (14,625,214)     |
|   | <b>2,259,006</b> | <b>3,244,941</b> |
| Represented by:   |                  |                  |
|   | 2014             | 2013             |
| Gross amount due from customers for contract work       | 2,410,969        | 3,319,472        |
| Gross amount due to customers for contract work         | (151,963)        | (74,531)         |
|   | <b>2,259,006</b> | <b>3,244,941</b> |

### 5. Accounts receivable and other debit balances

|                                  | 2014             | 2013             |
|----------------------------------|------------------|------------------|
| Trade receivables (a)            | 3,317,366        | 3,008,038        |
| Provision for doubtful debts (b) | (366,545)        | (428,536)        |
|                                  | <b>2,950,821</b> | <b>2,579,502</b> |
| Employees' receivable            | 268,867          | 207,985          |
| Petty cash imprest               | 30,942           | 24,597           |
| Prepaid expenses                 | 1,127,477        | 1,099,025        |
| Refundable deposits              | 91,228           | 83,997           |
| Retention receivable             | 1,995,265        | 1,313,859        |
| Advance payments to suppliers    | 767,484          | 1,304,248        |
| Accrued revenue                  | 580,814          | 462,798          |
|                                  | <b>7,812,898</b> | <b>7,076,011</b> |

#### a) Trade receivables

Trade receivables are non-interest bearing and are generally due within a year. The aging analysis of these trade receivables is as follows:

|             | Neither past<br>due nor<br>impaired | Past due but not<br>impaired | Past due and<br>impaired |                  |
|-------------|-------------------------------------|------------------------------|--------------------------|------------------|
|             | 1-12 months                         | More than a year             | More than a<br>year      | Total            |
| <b>2014</b> | <b>2,525,727</b>                    | <b>425,094</b>               | <b>366,545</b>           | <b>3,317,366</b> |
| <b>2013</b> | 2,175,139                           | 404,363                      | 428,536                  | 3,008,038        |

As of December 31, 2014, trade receivables amounting to KD 425,094 (2013 - KD 404,363) were past due but not impaired. These amounts related to a number of independent customers for whom there is no recent history of default.

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### b) Provision for doubtful debts

The movement in the provision for doubtful debts was as follows:

|                                      | 2014      | 2013      |
|--------------------------------------|-----------|-----------|
| Balance at the beginning of the year | 428,536   | 598,536   |
| Charge for the year                  | 68,419    | 9,253     |
| Utilized in the year                 | (130,410) | (179,253) |
| Balance at the end of the year       | 366,545   | 428,536   |

- c) The other classes within accounts receivable and other debit balances do not include impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. Further, the Group doesn't hold any collateral as security, for accounts receivable and other debit balances.

## 6. Related party disclosures

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

### Balances in the consolidated statement of financial position:

|   | Associates  | Key management personnel | Other related parties | Total       |             |
|---|-------------|--------------------------|-----------------------|-------------|-------------|
|   |             |                          |                       | 2014        | 2013        |
| Due from related parties - current portion      | 16,404,842  | 112,419                  | 81,353                | 16,598,614  | 8,482,595   |
| Due from related parties - non-current portion  | 11,273,446  | -                        | -                     | 11,273,446  | 11,009,898  |
| Development Properties                          | 2,918,664   | -                        | -                     | 2,918,664   | 1,869,139   |
| Investment properties                           | -           | -                        | -                     | -           | 300,624     |
| Due to related parties – non – current portion. | (1,173,362) | (50,881)                 | (1,124,180)           | (2,348,423) | (2,367,023) |

### Transactions in the consolidated statement of profit or loss:

|                  | Associates | Key management personnel | Other related parties | Total     |           |
|------------------|------------|--------------------------|-----------------------|-----------|-----------|
|                  |            |                          |                       | 2014      | 2013      |
| Projects revenue | 540,016    | -                        | 211,937               | 751,953   | 479,240   |
| Rental revenue   | -          | 91,506                   | -                     | 91,506    | 91,506    |
| Resort revenue   | -          | 36,582                   | -                     | 36,582    | -         |
|                  | 540,016    | 128,088                  | 211,937               | 880,041   | 570,746   |
| Project cost     | (467,046)  | -                        | (187,148)             | (654,194) | (437,607) |
| Resort cost      | -          | (16,229)                 | -                     | (16,229)  | -         |
|                  | (467,046)  | (16,229)                 | (187,148)             | (670,423) | (437,607) |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Compensation to key management personnel:

|                             | 2014             | 2013             |
|-----------------------------|------------------|------------------|
| Salaries and other benefits | 1,002,113        | 978,380          |
| Leave                       | 98,597           | 105,616          |
| Indemnity                   | 60,201           | 100,553          |
|                             | <b>1,160,911</b> | <b>1,184,549</b> |

### 7. Land held for trading

|  | 2014             | 2013             |
|--|------------------|------------------|
| Balance at the beginning of the year     | 8,193,487        | 8,046,115        |
| Additions                                | 54,285           | 124,551          |
| Impairment loss                          | (835,760)        | -                |
| Foreign currency translation adjustments | 311,750          | 22,821           |
| Balance at end of the year               | <b>7,723,762</b> | <b>8,193,487</b> |

Land held for trading represents land in Kingdom of Bahrain. According to valuations from independent valuers, the fair value of this land amounted to KD 7,723,762 as of December 31, 2014 (2013 – KD 8,316,354).

Land held for trading had been pledged against Murabaha contracts granted by a local financial institution (Note 17).

### 8. Inventory

|                    | 2014           | 2013           |
|--------------------|----------------|----------------|
| Material in stores | 279,110        | 260,309        |
| Plants inventory   | 44,123         | 41,182         |
|                    | <b>323,233</b> | <b>301,491</b> |

### 9. Assets classified as held for sale

On December 25, 2014, the Board of Directors of GCC Property Fund I (wholly owned by the parent Company and its subsidiaries) signed sale agreements with an investee for selling its entire investment in associate company's shares - ALARGAN Projects Co. - S.S.C amounted to 13,239,840 shares which represent 27.583% of the associate company's capital in a total amount of S.R. 579,243,000 (equivalent to approximately KD 45,247,570) through two transactions as follows:

- a- First transaction: Selling 992,988 shares, which represent 7.5% of the total shares owned by the Fund in the associate company's capital. Since all risks and rewards of the sold shares are transferred to the buyer the gain from this transaction was reported in "profit for the year from discontinued operations" in the consolidated statement of profit or loss for the year ended December 31, 2014. The gain on sale was calculated as follows:

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|   | Value<br>KD        | Value<br>SR         |
|---|--------------------|---------------------|
| Total sale value  | 4,524,757          | 57,924,300          |
| <b>Cost of disposal:</b>                                |                    |                     |
| Assets:   |                    |                     |
| Carrying value of investment as of the date of disposal | (1,291,913)        | (16,538,599)        |
| Reversal from foreign currency translation reserve      | 25,559             | -                   |
| <b>Total cost of disposal</b>                           | <b>(1,266,354)</b> | <b>(16,538,599)</b> |
| <b>Net gain from sale</b>                               | <b>3,258,403</b>   | <b>41,385,701</b>   |

- b- Second transaction: Selling the remaining shares owned by the fund amounted to 12,246,852 shares, which represent 92.5%, of the total shares owned by the Fund in the associate company's capital, and since the second transaction is conditioned not to be executed if the buyer does not settle the sale amount by April 30, 2015. Accordingly the carrying value of these shares was reported as assets classified as held for sale until the buyer settle the sale value of the shares and completing the sale transaction conditions in order to recognize the gain from this transaction, which is expected to be calculated as follows:

|  | Value<br>KD         | Value<br>SR          |
|--|---------------------|----------------------|
| Total sale value (As per exchange rates on December 31, 2014)      | 40,722,813          | 521,318,700          |
| <b>Cost of disposal:</b>   |                     |                      |
| Assets:  |                     |                      |
| Carrying value of investment as of the date of disposal            | (15,933,590)        | (203,976,059)        |
| Reversal from foreign currency translation reserve                 | 315,232             | -                    |
| <b>Total cost of disposal</b>                                      | <b>(15,618,358)</b> | <b>(203,976,059)</b> |
| <b>Net gain from sale (once the sale transaction has executed)</b> | <b>25,104,455</b>   | <b>317,342,641</b>   |

The carrying value of Assets classified as held for sale which is represented by the investment in ALARGAN Projects Co. - S.S.C. as of December 31, 2014 are as follows:

|   | Holding<br>% | 2014        | 2013 |
|---|--------------|-------------|------|
| Transferred from investment in an associate – (Note 10) | 27.583 %     | 16,755,139  | -    |
| Disposals (Related to First transaction)                | (2.069 %)    | (1,291,913) | -    |
| Foreign currency translation adjustment                 |              | 470,364     | -    |
| Carrying value of Asset classified as held for sale     | 25.514 %     | 15,933,590  | -    |

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**Earnings per share related to shareholders of the Parent Company from discontinued operations are calculated as follows:**

|  | 2014        | 2013        |
|--|-------------|-------------|
| Share of result from associate related to discontinued operations - (Note 10)                            | 3,062,651   | 2,184,555   |
| Gain from partial sale of share in an associate (Item (a) above)   | 3,258,403   | -           |
| Profit for the year from discontinued operations   | 6,321,054   | 2,184,555   |
| Share of discontinued operations from contribution to KFAS, NLST and Zakat                               | (130,630)   | (54,613)    |
|  | 6,190,424   | 2,129,942   |
| <b>Number of outstanding shares:</b>   |             |             |
| Weighted average number of issued shares   | 265,000,000 | 265,000,000 |
| Less: Weighted average number of treasury shares   | (8,751,097) | (8,737,460) |
| Weighted average number of outstanding shares  | 256,248,903 | 256,262,540 |
|  |             |             |
| Earnings per share related to the shareholders of the Parent Company from discontinued operations (Fils) | 24.16       | 8.31        |

## 10. Investment in associates

Investment in associates comprises the following:

| Name of the associates  | Country of incorporation | Ownership percentage % |        | 2014       | 2013       |
|---|--------------------------|------------------------|--------|------------|------------|
|   |                          | 2014                   | 2013   |            |            |
| Saar Gate Real Estate Co. – W.L.L.                            | Bahrain                  | 20                     | 20     | 1,069,444  | 1,030,456  |
| Al Argan Towell Investment Co. – W.L.L.                       | Oman                     | 50                     | 50     | 7,304,071  | 6,836,816  |
| Al Argan Bahrain Co. – W.L.L.                                 | Bahrain                  | 50                     | 50     | 9,025      | 29,098     |
| Al Argan Projects Co. – S.S.C.                                | Saudi Arabia             | -                      | 27.583 | -          | 14,683,123 |
| Barka City Real Estate Co. – W.L.L.                           | Oman                     | 25                     | 25     | 454,485    | 27,172     |
| Saji Real Estate Co. – K.S.C.C. - (i)                         | Kuwait                   | 10                     | 10     | 132,536    | 147,112    |
| Real Estate Finance Facilities Co. – K.S.C.C. – (ii)          | Kuwait                   | 10.29                  | 10.29  | 3,091,610  | 2,951,789  |
| Delmon Residence Co. – W.L.L. - (iii)                         | Bahrain                  | 10                     | 10     | 72,884     | 53,791     |
| Al Argan Towell National Trading and Contracting Co. – W.L.L. | Oman                     | 25                     | 25     | 26,100     | 26,100     |
| Sorouh AlQurom Bahrain Co. – W.L.L.                           | Bahrain                  | 28.48                  | 28.48  | 63,737     | 59,302     |
|   |                          |                        |        | 12,223,892 | 25,844,759 |

- i) The Parent company accounted for its investment in Saji Real Estate Co. – K.S.C. (Closed) in which the Group owns 10 % of total capital as Investment in associate, since there is one member out of five members representing the Parent company in the Board of Directors. In addition, the parent company is the real estate developer of the main project of the associate, which indicates that the Parent Company has a significant influence over the financial and operational policies of the associate.



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- ii) The Parent Company accounted for the investment in Real Estate Finance Facilities Co. – K.S.C. (Closed) in which the Group owns 10.29% of total capital as Investment in associate, since the Parent Company is the real estate developer of certain main projects of the associate, which indicates that the Parent Company has a significant influence over the financial and operational policies of the associate.
- iii) The Parent Company recognize the investment in Delmon Residence Company- W.L.L. – Kingdom of Bahrain in which the Group owns 10% of total capital as Investment in associate, since the Parent Company is the real estate developer of the main project of the associate, which indicates that the Parent Company has a significant influence over the financial and operational policies of the associate.

The movement during the year are as follows:

|  | 2014         | 2013        |
|--|--------------|-------------|
| Balance at beginning of the year   | 25,844,759   | 24,333,665  |
| Transferred to assets classified as held for sale – (Note 9)                   | (16,755,139) | -           |
| Share of results from an associate related to discontinued operations (Note 9) | 3,062,651    | 2,184,555   |
| Cash dividends from an associate related to discontinued operations            | (990,635)    | (1,000,203) |
| Share of results from associates   | 894,828      | 573,814     |
| Cash dividends received from associates  | (154,369)    | (283,010)   |
| Foreign currency translation adjustments                                       | 310,202      | 48,493      |
| Share of change in other comprehensive income of associates                    | 11,595       | (12,555)    |
| Balance at end of the year   | 12,223,892   | 25,844,759  |

**A - Summarized financial information for material associates to the Group as of December 31, are as follows:**

### Summarized consolidated statement of financial position

|   | Al Argan Towell<br>Investment Co. – W.L.L. |            | Real Estate Finance<br>Facilities Co. – K.S.C.C. |            | Barka City Real Estate<br>Co. – W.L.L. |           |
|---|--|------------|--|------------|--|-----------|
|   | 2014                                       | 2013       | 2014   | 2013       | 2014                                   | 2013      |
| <b>Assets:</b>  |  |            |  |            |  |           |
| Current assets  | 4,708,799                                  | 8,496,274  | 8,134,598  | 3,622,000  | 68,270                                 | 2,870     |
| Non-current assets  | 50,733,713                                 | 39,260,351 | 22,391,059                                       | 25,546,000 | 9,737,381                              | 6,196,355 |
| Total assets  | 55,442,512                                 | 47,756,625 | 30,525,657                                       | 29,168,000 | 9,805,651                              | 6,199,225 |
| <b>Liabilities:</b>                                       |  |            |  |            |  |           |
| Current liabilities                                       | 1,837,502                                  | 2,207,083  | 463,241  | 469,000    | 404,887                                | 84,102    |
| Non-current liabilities                                   | 38,996,868                                 | 31,875,910 | 17,612   | 13,004     | 7,582,824                              | 6,006,435 |
| Total liabilities   | 40,834,370                                 | 34,082,993 | 480,853  | 482,004    | 7,987,711                              | 6,090,537 |
| <b>Net assets</b>   | 14,608,142                                 | 13,673,632 | 30,044,804                                       | 28,685,996 | 1,817,940                              | 108,688   |
| Group's holding percentage                                | 50%  | 50%        | 10.29%   | 10.29%     | 25%                                    | 25%       |
| Carrying amount of the group's interest in the investment | 7,304,071                                  | 6,836,816  | 3,091,610  | 2,951,789  | 454,485                                | 27,172    |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### Summarized Consolidated Statements of profit or loss and consolidated other comprehensive income

|   | Al Argan Towell<br>Investment Co. – W.L.L. |           | Real Estate Finance<br>Facilities Co. – K.S.C.C. |           | Barka City Real Estate<br>Co. – W.L.L. |      |
|---|--|-----------|--|-----------|--|------|
|   | 2014                                       | 2013      | 2014   | 2013      | 2014                                   | 2013 |
| Revenue   | 4,018,784                                  | 2,122,945 | 3,552,954  | 3,288,260 | 1,896,577                              | -    |
| Net profit for the year attributable to partners of the associate company             | 406,610                                    | 1,059,748 | 2,802,113  | 1,886,569 | 1,672,180                              | -    |
| Net Loss (profit) for the year attributable to non-controlling interest               | 290,580                                    | (122,541) | -  | -         | -                                      | -    |
| Share of results from associate   | 203,305                                    | 529,874   | 288,337  | 194,128   | 418,045                                | -    |
| Other comprehensive income for the year   | 58   | (335)     | 56,880   | 58,999    | -                                      | -    |
| Total comprehensive income for the year attributable to partners of associate company | 406,668                                    | 1,059,413 | 2,858,993  | 1,945,568 | 1,672,180                              | -    |
| Dividends received from associates  | -  | -         | 154,369  | 283,010   | -                                      | -    |

### B - Aggregate information for associates that is not material to the group:

|   | 2014      | 2013      |
|---|-----------|-----------|
| Carrying amount of the group's investment in associates     | 1,373,726 | 1,345,859 |
| Share of results from associates                            | (14,859)  | (150,188) |
| Share of change in other comprehensive income of associates | 5,713     | (18,459)  |
| Total comprehensive income of associates                    | (9,146)   | (168,647) |

## 11. Investments available for sale

|   | 2014    | 2013    |
|---|---------|---------|
| Investment in real estate and investment portfolios | 120,148 | 157,493 |
| Investment in real estate and investment funds      | 116,944 | 289,971 |
| Unquoted equity securities                          | 48,000  | 48,000  |
|   | 285,092 | 495,464 |

Investments available for sale include investments reclassified from investments at fair value through profit or loss during the year ended December 31, 2008, and its fair value as of December 31, 2014 amounted to KD 237,092 (December 31, 2013 – KD 447,464). Cumulative changes in fair value related to these investments accounted in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2014 amounted to gain of KD 53,166 (2013 - Loss KD 100,839).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The movement during the year is as follows:

|                                  | 2014      | 2013      |
|----------------------------------|-----------|-----------|
| Balance at beginning of the year | 495,464   | 691,279   |
| Additions                        | 14,107    | -         |
| Disposal                         | (191,908) | -         |
| Changes in fair value            | 53,166    | (100,839) |
| Impairment loss (Note 32)        | (85,737)  | (94,976)  |
| Balance at end of the year       | 285,092   | 495,464   |

Investments available for sale are denominated in the following currencies:

| <u>Currency</u> | 2014    | 2013    |
|-----------------|---------|---------|
| Kuwaiti Dinar   | 48,000  | 48,000  |
| US Dollar       | 172,270 | 376,688 |
| Euro            | 64,822  | 70,776  |
|                 | 285,092 | 495,464 |

### 12. Development properties

|  | 2014      | 2013      |
|--|-----------|-----------|
| Balance at beginning of the year         | 2,938,072 | -         |
| Add: Land cost                           | 2,918,664 | 1,869,139 |
| Add: development cost                    | 1,588,649 | 1,022,226 |
| Foreign currency translation adjustments | 157,094   | 46,707    |
| Balance at end of the year               | 7,602,479 | 2,938,072 |

During the year ended December 31, 2014, a subsidiary purchased plots of land located in Sultanate of Oman from an associate company amounting to Omani Riyal 3,981,812 (equivalent to KD 2,918,664) for development purpose. The development properties are registered in the name of a related party and there is a letter of assignment in favor of the group regarding the ownership of this land.

### 13. Investment properties

Investment properties represent the following:

|   | 2014       | 2013       |
|---|------------|------------|
| Investment properties stated at fair value (A)              | 57,300,812 | 58,438,672 |
| Investment properties under construction stated at cost (B) | 1,350,241  | 429,860    |
|   | 58,651,053 | 58,868,532 |

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AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### A. Investment properties stated at fair value

The movement during the year for investment properties stated at fair value is as follows:

|  | Buildings<br>constructed<br>on leasehold<br>lands | Buildings<br>constructed<br>on freehold<br>lands | Freehold<br>land | Total             |
|--|---|--|------------------|-------------------|
| Balance as of December 31, 2012        | 52,950,000  | 464,209  | 2,067,533        | 55,481,742        |
| Additions                              | 1,241,960   | 300,624  | 196,505          | 1,739,089         |
| Changes in fair value                  | 1,433,040   | 140,582  | (355,781)        | 1,217,841         |
| Balance as of December 31, 2013        | 55,625,000  | 905,415  | 1,908,257        | 58,438,672        |
| Additions                              | 1,032,034   | -  | 161,212          | 1,193,246         |
| Disposal                               | -   | -  | (834,389)        | (834,389)         |
| Changes in fair value                  | (1,332,034)                                       | 108,681  | (273,364)        | (1,496,717)       |
| <b>Balance as of December 31, 2014</b> | <b>55,325,000</b>                                 | <b>1,014,096</b>                                 | <b>961,716</b>   | <b>57,300,812</b> |

During the year ended December 31, 2014, the Group sold plots of freehold land located in Sultanate of Oman in the amount of KD 1,026,442 resulting in a realized gain of KD 192,053.

The fair value of investment properties for the Group as of December 31, 2014 is based on valuations done by independent valuers. The management of the Group has complied with Capital Markets Authority decision dated July 23, 2012 with respect to guidelines for fair value of investment properties.

In estimating the fair value of investment properties, the group had used discounted cash flows method and market sales comparison method, considering the nature and usage of the investment properties. Following is the description of valuation techniques and key inputs to valuations:

| Class of investment property           | Valuation technique         | Level | 2014              | 2013              |
|--|-----------------------------|-------|-------------------|-------------------|
| Building constructed on leasehold land | Discounted cash flow method | Three | 55,325,000        | 55,625,000        |
| Building constructed on freehold land  | Market sales comparison     | Two   | 1,014,096         | 905,415           |
| Freehold land                          | Market sales comparison     | Two   | 961,716           | 1,908,257         |
|  |                             |       | <b>57,300,812</b> | <b>58,438,672</b> |

Investment properties are constructed on leased land according to lease contracts ranging between 17 to 22 years.

Freehold land is registered in the name of a related party and there is a letter of assignment towards the group regarding the ownership of this land.

Investment properties include the following:

- Buildings constructed on leasehold land amounting to KD 47,100,000 as of December 31, 2014 pledged against loan granted from local bank (Note 16- a).
- Buildings constructed on leasehold land and freehold land amounting to KD 800,000 and KD 961,716 respectively as of December 31, 2014 have been pledged against Murabaha contracts granted from local financial institution (Note 17).

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### B. Investment properties under construction stated at cost

The movement during the year of the investment properties under construction stated at cost are as follows:

|  | Buildings<br>constructed<br>on leasehold<br>lands |
|--|---|
| Balance as of December 31, 2012        | 205,762   |
| Additions                              | 224,098   |
| Balance as of December 31, 2013        | 429,860   |
| Additions                              | 920,381   |
| <b>Balance as of December 31, 2014</b> | <b>1,350,241</b>                                  |



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 14. Fixed assets

|                                  | Building constructed on right of utilization | Al-Abdaly farm building constructed on leasehold land from Government | Building       | Hotel's furniture and fixture | Computer software | Decorations    | Tools and equipments | Vehicles and equipment | Furniture and fixture | Total            |
|----------------------------------|--|---|----------------|-------------------------------|-------------------|----------------|----------------------|------------------------|-----------------------|------------------|
| <b>Cost:</b>                     |  |   |                |                               |                   |                |                      |                        |                       |                  |
| As of December 31, 2013          | 518,918                                      | 107,709   | 114,184        | 4,323,417                     | 262,034           | 374,931        | 1,568,982            | 492,799                | 313,017               | 8,075,991        |
| Additions                        | -  | -   | 6,633          | 192,825                       | 37,056            | 56,157         | 26,898               | 19,465                 | 132,841               | 471,875          |
| Disposals                        | -  | -   | -              | -                             | -                 | -              | (219)                | (1,505)                | (2,888)               | (4,612)          |
| <b>As of December 31, 2014</b>   | <b>518,918</b>                               | <b>107,709</b>  | <b>120,817</b> | <b>4,516,242</b>              | <b>299,090</b>    | <b>431,088</b> | <b>1,595,661</b>     | <b>510,759</b>         | <b>442,970</b>        | <b>8,543,254</b> |
| <b>Accumulated depreciation:</b> |  |   |                |                               |                   |                |                      |                        |                       |                  |
| As of December 31, 2013          | 248,510                                      | 107,708   | 113,363        | 2,577,223                     | 246,277           | 115,911        | 1,105,858            | 309,854                | 291,015               | 5,115,719        |
| Charge for the year              | 31,172                                       | -   | 927            | 359,285                       | 15,533            | 42,271         | 167,355              | 65,701                 | 24,657                | 706,901          |
| Relating to disposal             | -  | -   | -              | -                             | -                 | -              | (218)                | (807)                  | (2,876)               | (3,901)          |
| <b>As of December 31, 2014</b>   | <b>279,682</b>                               | <b>107,708</b>  | <b>114,290</b> | <b>2,936,508</b>              | <b>261,810</b>    | <b>158,182</b> | <b>1,272,995</b>     | <b>374,748</b>         | <b>312,796</b>        | <b>5,818,719</b> |
| <b>Net book value:</b>           |  |   |                |                               |                   |                |                      |                        |                       |                  |
| <b>As of December 31, 2014</b>   | <b>239,236</b>                               | <b>1</b>  | <b>6,527</b>   | <b>1,579,734</b>              | <b>37,280</b>     | <b>272,906</b> | <b>322,666</b>       | <b>136,011</b>         | <b>130,174</b>        | <b>2,724,535</b> |
| As of December 31, 2013          | 270,408                                      | 1   | 821            | 1,746,194                     | 15,757            | 259,020        | 463,124              | 182,945                | 22,002                | 2,960,272        |

Deprecation charge for the year is allocated as follows:

|               | 2014           | 2013           |
|---------------|----------------|----------------|
| Projects cost | 202,840        | 123,230        |
| Rent cost     | 207            | 207            |
| Resorts cost  | 361,678        | 349,591        |
| Others        | 142,176        | 159,509        |
|               | <b>706,901</b> | <b>632,537</b> |

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### 15. Due to banks

This item represents as of December 31, 2014 bank facilities granted from local banks at interest rate 2.5% per annum over the Central Bank of Kuwait discount rate and is payable on demand.

### 16. Short and long term loans installments

|   | 2014              | 2013              |
|---|-------------------|-------------------|
| <b>Current:</b>   |                   |                   |
| a. Secured bank loan carrying an interest rate of 3% per annum over the Central Bank of Kuwait discount rate.               | 6,000,000         | 3,000,000         |
| b. Secured bank loans carrying an interest rate from 2.5% to 3.5% per annum over the Central Bank of Kuwait discount rate.  | 705,456           | 427,568           |
|   | <b>6,705,456</b>  | <b>3,427,568</b>  |
| <b>Non-current:</b>   |                   |                   |
| a. Secured bank loan carrying an interest rate of 3% per annum over the Central Bank of Kuwait discount rate.               | 24,000,000        | 27,000,000        |
| c. Unsecured revolving bank loan carrying an interest rate of 2.5% per annum over the Central Bank of Kuwait discount rate. | 1,000,000         | -                 |
|   | <b>25,000,000</b> | <b>27,000,000</b> |
|   | <b>31,705,456</b> | <b>30,427,568</b> |

- a) This item represents secured loan granted to the Parent Company from a local bank and is payable in installments starting from February 28, 2015 and the last installment is payable on December 15, 2018. During the subsequent period the Parent Company settled the first installment amount of KD 3,000,000.

This loan is secured by the following:

- Pledging all shares of the subsidiary – Argana for resorts & Hotels Company - K.S.C. (Closed).
  - Pledging the buildings constructed on the real estate located in Al Bedaa amounting to KD 47,100,000 as of December 31, 2014 – Note (13 - a).
- b) This item represents secured loans granted to a subsidiary Company from a local bank secured by the corporate guarantee of the Parent Company and a letter of assignment on the revenue of certain projects. The loan is payable in installments and the last installment is due on October 31, 2015.
- c) This item represents unsecured revolving loan granted to the Parent Company from a local bank and is payable on February 28, 2016.

Certain loans granted to some associates are secured by the corporate guarantee of Al Argan International Real Estate Co. - K.S.C. (Public).

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### 17. Short and long term Murabaha contracts installments

|  | 2014       | 2013       |
|--|------------|------------|
| <b>Current:</b>                                |            |            |
| Short term Murabaha contracts installments     | 10,064,302 | 12,198,684 |
| Less: Deferred finance cost                    | (300,559)  | (835,425)  |
| Net short term Murabaha contracts installments | 9,763,743  | 11,363,259 |
| <b>Non-current:</b>                            |            |            |
| Long term Murabaha contracts installments      | 23,347     | 259,119    |
| Deduct: Deferred finance costs                 | (1,150)    | (21,384)   |
| Net long term Murabaha contracts installments  | 22,197     | 237,735    |
|  | 9,785,940  | 11,600,994 |

The Group was granted Murabaha contracts in an amount of KD 8,297,354 from a local bank and is payable in installments and the last installment is due on August 13, 2016. These Murabaha contracts are secured by the following pledges:

- Murabaha Investment amounting to KD 755,000 as of December 31, 2014 – (Note 3).
- Land held for trading amounting to KD 7,723,762 as of December 31, 2014 – (Note 7).
- Building constructed on leasehold land in investment properties amounting to KD 800,000 as of December 31, 2014 – (Note 13 - a).
- Freehold land in investment properties amounting to KD 961,716 as of December 31, 2014 – (Note 13-a).

### 18. Accounts payable and other credit balances

|   | 2014      | 2013      |
|---|-----------|-----------|
| Trade payable                             | 1,231,977 | 1,264,135 |
| Staff payable                             | 29,608    | 40,689    |
| Accrued staff leave                       | 693,412   | 594,115   |
| Rent deposits for others                  | 420,413   | 407,819   |
| Subcontractors' retentions                | 517,142   | 326,084   |
| Revenues and payments received in advance | 3,802,996 | 2,660,459 |
| Accrued expenses                          | 1,257,619 | 1,265,243 |
| Taxation provision                        | -         | 623,867   |
| KFAS payable                              | 9,251     | -         |
| NLST payable                              | 228,158   | 305,279   |
| Zakat payable                             | 124,109   | 113,224   |
| Board of Directors' remuneration payable  | 40,000    | 15,000    |
|   | 8,354,685 | 7,615,914 |

- Trade payable are non-interest bearing and are settled within 3 months.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### 19. Dividend payable

The parent company's General Assembly meeting held on June 1, 2014, approved the consolidated financial statement of the Group for the year ended December 31, 2013, and approved the proposal of the Board of Directors for distributing cash dividends of 7% from the share's par value (7 fils per share).

The parent company's General Assembly meeting held on May 14, 2013, approved the consolidated financial statement of the Group for the year ended December 31, 2012, and approved the proposal of the Board of Directors for distributing cash dividends of 7% from the share's par value (7 fils per share).

### 20. Long term bonds

|                                 | 2014       | 2013       |
|---------------------------------|------------|------------|
| Bonds issued at fixed rate      | 15,910,000 | 13,200,000 |
| Bonds issued at floating rate   | 3,300,000  | 3,300,000  |
|                                 | 19,210,000 | 16,500,000 |
| (Deduct) unamortized issue cost | (139,770)  | (201,162)  |
|                                 | 19,070,230 | 16,298,838 |

As per the Parent Company's Ordinary General Assembly meeting held on May 26, 2011, and after getting the approval of the Capital Markets Authority in the State of Kuwait on January 31, 2012, the parent company did the following on April 11, 2012:

- a- Issued 4640 bonds of KD 5,000 each in the total amount of KD 23,200,000 for five years from the date of issuing bonds and due on one payment on April 11, 2017 carrying fixed interest rate coupon of 6.25% per annum and the interest is payable on semi annual basis.
- b- Issued 660 bonds of KD 5,000 each in the total amount of KD 3,300,000 for five years from the date of issuing bonds and due on one payment on April 11, 2017 carrying floating interest rate coupon of 3.5% per annum over the Central Bank of Kuwait discount rate and the interest is payable on semiannual basis.

On May 17, 2012, the parent Company repurchased 2,000 bonds with a total amount of KD 10,000,000 at par value of KD 5,000 per bond, and during the year ended December 31, 2014 the parent company resold 542 fixed rate bonds at interest rate of 6.25% per annum at par value with a total amount of KD 2,710,000.

The above mentioned bonds containing the obligations of the Issuer will be direct, unconditional and unsecured obligations and rank pari passu among themselves and with all other present and future unsecured obligations, other than subordinated obligations and those preferred by mandatory provisions of law.

### 21. Provision for end of service indemnity

|                                      | 2014      | 2013      |
|--------------------------------------|-----------|-----------|
| Balance at beginning of the year     | 1,267,785 | 1,001,026 |
| Charge for the year                  | 377,111   | 354,093   |
| Paid during the year                 | (113,007) | (86,717)  |
| Transfer from / (to) a related party | 5,715     | (617)     |
| Balance at end of the year           | 1,537,604 | 1,267,785 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### 22. Share capital

The parent company's authorized, issued and paid up capital is KD 26,500,000 distributed over 265,000,000 shares of 100 fils each (2013 – KD 26,500,000 distributed over 265,000,000 shares of 100 fils each) and all shares are cash and in kind (cash amounted to KD 22,400,000 and in kind amounted to KD 4,100,000).

### 23. Share premium

This item represents cash received in excess of the par value of the shares issued. Share premium are not available for distribution except in cases stipulated by law.

### 24. Statutory reserve

As required by the Companies Law and the parent Company's Articles of Incorporation, 10% of profit for the year attributable to Parent Company's shareholders before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax, Zakat and Board of Directors' remuneration 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 Incorporation.

It is not allowed to distribute statutory reserve to shareholders, it is only allowed to use it to distribute profits to shareholders amount to 5% (five percent) in the years when the Parent Company's profits do not allow to reach such percentage, if the statutory reserve exceeded half of the parent company's capital, the General Assembly of the Parent Company shareholders can decide to use such excess in activities that are suitable for the parent company and shareholders best interest.

### 25. Voluntary reserve

As required by the Parent Company's Article of Incorporation, a percentage is transferred to the voluntary reserve, suggested by the Board of Directors and approved by the General Assembly of the Parent Company shareholders, such transfer may be discontinued by a resolution of the Ordinary General Assembly based on the Board of Directors' recommendation.

### 26. Transfer to voluntary reserve

As required by the Parent Company's Articles of Incorporation according to Article (46) to deduct a percent devoted to the voluntary reserve suggested by the Board of Directors' and accepted by the parent company General Assembly (Note 25), so according to the Parent Company's Board of Directors' decision in its meeting dated March 26, 2015, they agreed to transfer 10% from net profit attributable to Parent Company's shareholders before contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax, Zakat and Board of Directors' remuneration to voluntary reserve. This resolution is subject to the approval of the parent company shareholders' Ordinary General Assembly meeting.

### 27. Treasury shares

|                              | 2014      | 2013      |
|------------------------------|-----------|-----------|
| Number of shares             | 8,749,100 | 8,792,800 |
| Percentage to paid up shares | 3.3016%   | 3.3181%   |
| Market value (KD)            | 1,557,340 | 1,424,434 |
| Cost (KD)                    | 3,396,599 | 3,430,274 |



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Based on Capital Markets Authority resolution dated December 30, 2013, the parent Company's management has allotted an amount equal to treasury shares balance from the available retained earnings as of the consolidated financial reporting date. Such amount will not be available for distribution during treasury shares holding period.

### 28. Net income from projects

|                  | 2014        | 2013        |
|------------------|-------------|-------------|
| Projects revenue | 7,577,670   | 9,508,785   |
| Project cost     | (7,519,446) | (8,680,674) |
|                  | 58,224      | 828,111     |

### 29. Net rental income

|                | 2014      | 2013      |
|----------------|-----------|-----------|
| Rental revenue | 3,168,768 | 3,280,298 |
| Rental cost    | (369,353) | (372,187) |
|                | 2,799,415 | 2,908,111 |

### 30. Net income from resorts

|                 | 2014        | 2013        |
|-----------------|-------------|-------------|
| Resorts revenue | 7,834,439   | 7,700,009   |
| Resorts cost    | (4,248,943) | (4,159,083) |
|                 | 3,585,496   | 3,540,926   |

### 31. General and administrative expenses

|                                    | 2014      | 2013      |
|------------------------------------|-----------|-----------|
| Salaries, wages and other benefits | 2,066,925 | 1,950,432 |
| Others                             | 1,709,846 | 2,148,143 |
|                                    | 3,776,771 | 4,098,575 |

### 32. Net investment loss

|  | 2014     | 2013     |
|--|----------|----------|
| Dividend income from investments available for sale        | 2,000    | 16,016   |
| Impairment loss of investment available for sale (Note 11) | (85,737) | (94,976) |
|  | (83,737) | (78,960) |

### 33. Contribution to KFAS

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% from profit of the Parent Company before contribution to KFAS, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration and after deducting the share of profit from the shareholding subsidiaries and associates and the transfer to statutory reserve.

No KFAS share has been calculated for the year ended December 31, 2013, since the KFAS share calculated in the financial statements of the subsidiaries and associates subject to KFAS resolution exceeds the KFAS share calculated for the accompanying consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### 34. National Labor Support Tax

National Labor Support Tax is calculated at 2.5% of the profit for the year attributable to shareholders of the Parent Company before contribution to KFAS, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration after deducting its share of profit from listed associates & un-consolidated subsidiaries subject to the same law, also its share of NLST paid by listed subsidiaries subject to the same law and 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.

### 35. Contribution to Zakat

Contribution to Zakat is calculated at 1% from the profit for the year attributable to shareholders of the parent company before contribution to KFAS, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration after deducting its share of profit from Kuwaiti shareholding associates & un-consolidated subsidiaries 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 calculated for the year ended December 31, 2013 since the Zakat share calculated in the financial statements of the subsidiaries and associates subject to Zakat resolution exceeds the Zakat share calculated for the accompanying consolidated financial statements.

### 36. Board of Directors' remuneration

The Board of Directors' meeting held on March 26, 2015 proposed a Board of Directors remuneration amounted to KD 25,000 for the year ended December 31, 2014. This recommendation is subject to the approval of the Ordinary General Assembly of the Parent Company's shareholders.

The Parent Company's General Assembly meeting held on June 1, 2014 approved the proposal of the Board of Directors for distributing an amount of KD 30,000 as a Board of Directors' remuneration for the year ended December 31, 2013 and it was recorded in General and administrative expenses for the year ended December 31, 2014.

### 37. Earnings per share attributable to parent company's shareholders (Fils)

The information necessary to calculate the basic earnings per share based on the weighted average number of shares outstanding during the year are as follows:

|   | 2014        | 2013        |
|---|-------------|-------------|
| Net profit for the year attributable to the parent company's shareholders   | 4,655,878   | 3,864,390   |
| <u>Number of outstanding shares:</u>  |             |             |
| Weighted average number of issued shares                                    | 265,000,000 | 265,000,000 |
| Less: Weighted average number of treasury shares                            | (8,751,097) | (8,737,460) |
| Weighted average number of outstanding shares                               | 256,248,903 | 256,262,540 |
| Earnings per share attributable to the parent company's shareholders (Fils) | 18.17       | 15.08       |

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

**38. Proposed cash dividends**

The Board of Directors' meeting held on March 26, 2015 recommend a cash dividend of 7% (7 fils per share) for the year ended December 31, 2014. This recommendation is subject to the approval of the Ordinary General Assembly of the Parent Company's shareholders.

**39. Employees' cost**

Employees' salaries and other benefits amounted to KD 6,182,456 for the year ended December 31, 2014 (2013 – KD 6,150,552).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

#### 40. Segment analysis

##### A. Segment analysis by activities:

The Group's activities are represented primarily in real estate investment activity, contracting activities and Hotels and resorts activities as follows:

|                                | Real estate investment |              |  | Contracting |             |  | Hotels and resorts |             |  | Real estate investment discontinued operations |           |  | Total        |              |
|--------------------------------|------------------------|--------------|--|-------------|-------------|--|--------------------|-------------|--|--|-----------|--|--------------|--------------|
|                                | 2014                   | 2013         |  | 2014        | 2013        |  | 2014               | 2013        |  | 2014   | 2013      |  | 2014         | 2013         |
| Revenue                        | 2,827,820              | 2,374,956    |  | 6,379,178   | 8,162,006   |  | 10,893,397         | 12,549,153  |  | 6,321,054                                      | 2,184,555 |  | 26,421,449   | 25,270,670   |
| Expenses                       | (7,003,702)            | (7,435,306)  |  | (6,913,758) | (8,005,753) |  | (7,742,183)        | (5,894,700) |  | -  | -         |  | (21,659,643) | (21,335,759) |
| Net (loss) profit for the year | (4,175,882)            | (5,060,350)  |  | (534,580)   | 156,253     |  | 3,151,214          | 6,654,453   |  | 6,321,054                                      | 2,184,555 |  | 4,761,806    | 3,934,911    |
| Total assets                   | 76,619,662             | 82,876,201   |  | 7,561,520   | 7,771,656   |  | 50,697,124         | 52,107,042  |  | 15,933,590                                     | -         |  | 150,811,896  | 142,754,899  |
| Total liabilities              | (66,667,605)           | (63,417,181) |  | (5,485,228) | (5,648,889) |  | (2,042,301)        | (1,859,934) |  | -  | -         |  | (74,195,134) | (70,926,004) |
| Net assets                     | 9,952,057              | 19,459,020   |  | 2,076,292   | 2,122,767   |  | 48,654,823         | 50,247,108  |  | 15,933,590                                     | -         |  | 76,616,762   | 71,828,895   |

##### B. Geographical segments:

The Company primarily operates inside and outside Kuwait (Kingdom of Saudi Arabia – Kingdom of Bahrain, Arab Republic of Egypt, Sultanate of Oman and Republic of Lebanon) as follows:

|                                | Inside Kuwait |              |  | Outside Kuwait |             |  | Outside Kuwait discontinued operations |           |  | Total        |              |
|--------------------------------|---------------|--------------|--|----------------|-------------|--|--|-----------|--|--------------|--------------|
|                                | 2014          | 2013         |  | 2014           | 2013        |  | 2014                                   | 2013      |  | 2014         | 2013         |
| Revenue                        | 19,161,576    | 22,394,960   |  | 938,819        | 691,155     |  | 6,321,054                              | 2,184,555 |  | 26,421,449   | 25,270,670   |
| Expenses                       | (20,331,517)  | (20,698,687) |  | (1,328,126)    | (637,072)   |  | -                                      | -         |  | (21,659,643) | (21,335,759) |
| Net (loss) profit for the year | (1,169,941)   | 1,696,273    |  | (389,307)      | 54,083      |  | 6,321,054                              | 2,184,555 |  | 4,761,806    | 3,934,911    |
| Total assets                   | 75,813,169    | 75,246,924   |  | 59,065,137     | 67,507,975  |  | 15,933,590                             | -         |  | 150,811,896  | 142,754,899  |
| Total liabilities              | (69,821,546)  | (68,000,814) |  | (4,373,588)    | (2,925,190) |  | -                                      | -         |  | (74,195,134) | (70,926,004) |
| Net assets                     | 5,991,623     | 7,246,110    |  | 54,691,549     | 64,582,785  |  | 15,933,590                             | -         |  | 76,616,762   | 71,828,895   |

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### AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

Revenue / gain and expenses / loss analysis are as follows:

|  | 2004              |                   |                      | 2013              |                   |                      |
|--|-------------------|-------------------|----------------------|-------------------|-------------------|----------------------|
|  | Revenue /<br>gain | Expense /<br>loss | Net profit<br>(loss) | Revenue /<br>gain | Expense /<br>loss | Net profit<br>(loss) |
| Net income from projects   | 7,577,670         | (7,519,446)       | 58,224               | 9,508,785         | (8,680,674)       | 828,111              |
| Net income from rents  | 3,168,768         | (369,353)         | 2,799,415            | 3,280,298         | (372,187)         | 2,908,111            |
| Net income from resorts  | 7,834,439         | (4,248,943)       | 3,585,496            | 7,700,009         | (4,159,083)       | 3,540,926            |
| Share of results from associates   | 926,422           | (31,594)          | 894,828              | 728,534           | (154,720)         | 573,814              |
| Realized gain from sale of investment properties                             | 192,053           | -                 | 192,053              | -                 | -                 | -                    |
| Impairment loss for land held for trading                                    | -                 | (835,760)         | (835,760)            | -                 | -                 | -                    |
| Unrealized (loss) gain from changes in fair value of investment properties   | 367,546           | (1,864,263)       | (1,496,717)          | 1,825,749         | (607,908)         | 1,217,841            |
| General and administrative expenses  | -                 | (3,776,771)       | (3,776,771)          | -                 | (4,098,575)       | (4,098,575)          |
| Depreciation and amortization  | -                 | (155,056)         | (155,056)            | -                 | (172,389)         | (172,389)            |
| Provision for doubtful debts   | -                 | (68,419)          | (68,419)             | -                 | (9,253)           | (9,253)              |
| Net investment (loss)  | 2,000             | (85,737)          | (83,737)             | 16,016            | (94,976)          | (78,960)             |
| Interest income  | 23,153            | -                 | 23,153               | 17,042            | -                 | 17,042               |
| Finance charges  | -                 | (2,548,604)       | (2,548,604)          | -                 | (2,860,248)       | (2,860,248)          |
| Gain on sale of fixed assets   | 154               | -                 | 154                  | 5,341             | (3,100)           | 2,241                |
| Foreign exchange gain  | 8,020             | (67)              | 7,953                | 3,547             | (1,700)           | 1,847                |
| Other revenues   | 170               | -                 | 170                  | 794               | -                 | 794                  |
| Profit for the year from discontinued operations                             | 6,321,054         | -                 | 6,321,054            | 2,184,555         | -                 | 2,184,555            |
| KFAS, National Labour Support Tax, Zakat and Board of Directors remuneration | -                 | (155,630)         | (155,630)            | -                 | (120,946)         | (120,946)            |
| Net profit for the year  | 26,421,449        | (21,659,643)      | 4,761,806            | 25,270,670        | (21,335,759)      | 3,934,911            |



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 41. Financial Risk Management

In the normal course of business, the group uses primary financial instruments such as cash on hand and at banks, Murabaha investments, accounts receivable, due from (to) related parties, investments available for sale, due to banks, short and long term loans installments, short and long term Murabaha contracts installments, long term bonds and accounts payable and as a result, is exposed to the risks indicated below.

#### a) 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 repriced or mature are indicated in the respective notes.

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. There is no impact on the Parent Company's equity.

|  | Increase /<br>(Decrease) in<br>interest rate | 2014       | Effect on<br>consolidated<br>statement of<br>profit or loss |
|--|--|------------|---|
| Total short term liabilities to financial institutions | ± 50 basis points                            | 7,751,786  | ±38,759   |
| Total long term liabilities to financial institutions  | ± 50 basis points                            | 25,000,000 | ±125,000  |
| Long term bonds  | ± 50 basis points                            | 3,300,000  | ±16,500   |

|  | Increase /<br>(Decrease) in<br>interest rate | 2013       | Effect on<br>consolidated<br>statement of<br>profit or loss |
|--|--|------------|---|
| Total short term liabilities to financial institutions | ± 50 basis points                            | 4,584,332  | ±22,922   |
| Total long term liabilities to financial institutions  | ± 50 basis points                            | 27,000,000 | ±135,000  |
| Long term bonds  | ± 50 basis points                            | 3,300,000  | ±16,500   |

The above table is based on the assumptions relating to the outstanding bank overdraft, loans and bond balances on December 31, 2014 and December 31, 2013 and the sensitivity of change in interest rates.

#### b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of cash on hand and at banks, Murabaha investments and accounts receivable. The Group's cash on hand and at banks and Murabaha investments are placed with high credit rating financial institutions. The bank accounts of the Group are distributed among different banks without concentrations on a single bank. Accounts receivable are presented net of allowance for doubtful debts. Credit risk with respect to accounts receivable is limited due to the large number of customers and their dispersion across different industries.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash on hand and at banks, Murabaha investments, receivables and due from related parties.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### c) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. 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 foreign currencies and Kuwaiti Dinar.

| 2014            |  |   |
|-----------------|--|---|
|                 | Increase /<br>(Decrease)<br>against KD | Effect on<br>consolidated<br>statement of<br>profit or loss<br>and other<br>comprehensive<br>income |
| Bahraini Dinar  | ± 5%                                   | ± 25,086  |
| Omani Riyal     | ± 5%                                   | ± 54,486  |
| Saudi Riyal     | ± 5%                                   | ± 171   |
| US Dollar       | ± 5%                                   | ± 17,830  |
| Egyptian Pounds | ± 5%                                   | -   |
| Euro            | ± 5%                                   | - 3,241   |
| Sterling Pound  | ± 5%                                   | -   |
| UAE Dirham      | ± 5%                                   | ± 12  |

| 2013            |  |   |
|-----------------|--|---|
|                 | Increase /<br>(Decrease)<br>against KD | Effect on<br>consolidated<br>statement of<br>profit or loss<br>and other<br>comprehensive<br>income |
| Bahraini Dinar  | ± 5%                                   | ± 21,738  |
| Omani Riyal     | ± 5%                                   | ± 101,101   |
| Saudi Riyal     | ± 5%                                   | ± 2,170   |
| US Dollar       | ± 5%                                   | ± 20,191  |
| Egyptian Pounds | ± 5%                                   | -   |
| Euro            | ± 5%                                   | - 3,539   |
| Sterling Pound  | ± 5%                                   | -   |
| UAE Dirham      | ± 5%                                   | ± 19  |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### d) 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 Murabaha investments and other investments that are readily realizable, along with planning and managing the Group's forecasted cash flows by maintaining adequate cash reserves, maintaining valid and available credit lines with banks, and matching the maturity profiles of financial assets and liabilities.

#### Maturity Table for financial liabilities

|   | 2014        |            |            |
|---|-------------|------------|------------|
|   | 3-12 months | 1-3 years  | Total      |
| Accounts payable and other credit balances  | 8,354,685   | -          | 8,354,685  |
| Dividend payable                            | 194,503     | -          | 194,503    |
| Total liabilities to financial institutions | 17,515,529  | 25,022,197 | 42,537,726 |
| Bonds                                       | -           | 19,070,230 | 19,070,230 |
| Due to related parties                      | -           | 2,348,423  | 2,348,423  |
| Total                                       | 26,064,717  | 46,440,850 | 72,505,567 |

|   | 2013        |            |            |
|---|-------------|------------|------------|
|   | 3-12 months | 1-3 years  | Total      |
| Accounts payable and other credit balances  | 7,615,914   | -          | 7,615,914  |
| Dividend payable                            | 116,587     | -          | 116,587    |
| Total liabilities to financial institutions | 15,947,591  | 27,237,735 | 43,185,326 |
| Bonds                                       | -           | 16,298,838 | 16,298,838 |
| Due to related parties                      | -           | 2,367,023  | 2,367,023  |
| Total                                       | 23,680,092  | 45,903,596 | 69,583,688 |

### e) 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 investment in equity securities classified as 'available for sale' result from investment in investment portfolios and funds.

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:

|  | 2014                   |  |   | 2013                   |  |   |
|--|------------------------|--|---|------------------------|--|---|
|  | Change in equity price | Effect on consolidated statement of profit or loss | Effect on consolidated statement of profit or loss and other comprehensive income | Change in equity price | Effect on consolidated statement of profit or loss | Effect on consolidated statement of profit or loss and other comprehensive income |
| Investment in financial and real estate portfolios | ± 5%                   | - 3,241  | + 2,766   | ± 5%                   | -  | + 7,874   |
| Investment in investment and real estate funds     | ± 5%                   | - 5,847  | + 5,847   | ± 5%                   | -  | + 14,498  |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014 (All amounts are in Kuwaiti Dinars)

### f) Fair value measurement

The Group measures financial assets such as investments available for sale investments and non-financial assets such as investment properties, at fair value at each reporting date.

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

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

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

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unavailable.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

|                                | Fair value measurement |
|--------------------------------|------------------------|
| 2014                           | Level 2                |
| Investments available for sale | 237,092                |
| 2013                           | Level 2                |
| Investments available for sale | 447,464                |

At December 31, the fair values of financial instruments approximate their carrying amounts. The management of the Group has assessed that fair value of cash on hand and at banks, Murabaha investments, accounts receivable, due from (to) related parties, investments available for sale, due to banks, short and long term loans installments, short and long term Murabaha contracts installments, long term bonds and accounts payable approximate their carrying amounts largely due to the short-term maturities of these instruments.

During the year there were no transfers between Level 1, Level 2 and Level 3.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The fair value details of investment properties are mentioned in Note (13).

## 42. Capital Risk Management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital resources structure to reduce the cost of capital. In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash on hand and at banks. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

For the purpose of managing the capital risk, the total capital resources consists of the following components:

|  | 2014        | 2013         |
|--|-------------|--------------|
| Total short term liabilities to financial institutions | 17,515,529  | 15,947,591   |
| Total long term liabilities to financial institutions  | 25,022,197  | 27,237,735   |
| Long term bonds  | 19,070,230  | 16,298,838   |
| Less: cash on hand and at banks                        | (6,227,706) | (12,317,981) |
| Net debt   | 55,380,250  | 47,166,183   |
| Total equity   | 76,616,762  | 71,828,895   |
| Total capital resources                                | 131,997,012 | 118,995,078  |
| Gearing ratio  | 0.72        | 0.66         |

### 43. Contingent liabilities

The Group is contingently liable against the following:

|                       | 2014      | 2013      |
|-----------------------|-----------|-----------|
| Letters of credit     | 459,797   | 1,145,247 |
| Letters of guarantees | 4,929,733 | 5,278,262 |
|                       | 5,389,530 | 6,423,509 |

Contingent liabilities arising from the parent company's interest in associates were as follows:

|                       | 2014   | 2013   |
|-----------------------|--------|--------|
| Letters of guarantees | 25,942 | 11,770 |

Capital expenditure contracted for at the consolidated statement of financial position date but not yet incurred is as follows:

|                              | 2014    | 2013    |
|------------------------------|---------|---------|
| Right of utilization of land | 425,828 | 410,220 |

### 44. Legal cases

There are contingent liabilities and commitments relating to legal cases from the Group against others and from others against the Group which are still pending in the court as of the date of consolidated financial statements and based on the available information these cases do not have a material impact on the accompanying consolidated financial statements.