ALARGAN

شركة الأرجان العالمية العقارية

ALARGAN INTERNATIONAL REAL ESTATE COMPANY

ANNUAL REPORT

2012

"In The Name of God, The Most Gracious, The Most Merciful"

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

ALARGAN at a glance

ALARGAN was established in 1994 by the present Chairman and Managing Director, Mr. Khaled Khudair Al-Mashaan, as a contracting company focused on the construction of middle income housing in Kuwait and then moved on to become a full-fledged developer in the middle income housing market segment. The company was established in its current form as a joint stock company through the incorporation of ALARGAN International Real Estate as a closed Kuwaiti Shareholding Company in 2002 and grew into a leading real estate developer in the GCC. The establishment of ALARGAN International was subsequently followed by the initiation of ALARGAN Towell Investment Company in the Sultanate of Oman in 2003, ALARGAN Bahrain in the Kingdom of Bahrain in 2005 and ALARGAN Projects in the Kingdom of Saudi Arabia in 2006. ALARGAN was listed on the Kuwait Stock Exchange in 2007.

Since its inception, ALARGAN has primarily focused on developing quality affordable and middle-income housing solutions in the different markets that it operates in. The company has also acquired extensive knowledge in an array of property types, ranging from residential and commercial projects and master planned communities, to mixed-use and touristic developments. Recognizing the need and strength of local knowledge and expertise, ALARGAN carefully and successfully created a network of strategic partners across the region, expanding the company's reach into the main segments of the real estate sector in the Sultanate of Oman, Kingdom of Saudi Arabia and Kingdom of Bahrain. The company presently has a capital of KD 26.5 million and more than KD 550 million in projects under development. In addition, the company has approximately KD 40 million in assets under management.

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Investor Relations

Investors seeking more information on Alargan may:
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- Call us on (965) 24820440 Ext: 125
- Send an e-mail to investors@alargan.com

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Board of Directors

Board of Directors

Khaled Al-Mashaan

Chairman & Managing Director

Khaled Al-Mashaan is the Chairman and Managing Director of ALARGAN International Real Estate Company. Mr. Al-Mashaan has almost 30 years of experience in the civil engineering and real estate development industry. In the early stages of his career, he was involved in landmark projects in Kuwait and he contributed to the post war damage assessment following the 1990 - 1991 Gulf War. 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, with approximately KD 40 million of projects under development established in Kuwait, Oman, Saudi Arabia, Bahrain and Egypt. Mr. Al-Mashaan received his Bachelor of Science in Civil Engineering from California State University, Los Angeles – USA; he has successfully completed the Financial Management Program and the Advanced Management Development Program in Real Estate at Harvard University Graduate School of Design.

Hamad Al-Mudhaf

Vice Chairman

Mr. Al-Mudhaf is the Vice-Chairman of ALARGAN International Real Estate Company since May 2011. He is also the Chairman and Managing Director of ALARGAN Gulf Real Estate Services Company. Mr. Al-Mudhaf has over 20 years of experience in managing leading multinational real estate companies in Kuwait. Throughout his career, Mr. Al-Mudhaf has operated commercial, residential, and industrial properties, excelled using unique real estate approaches, teaming up on a project basis with other prominent businessmen, and creating several innovative and very successful projects within the GCC countries. Mr. Al-Mudhaf holds a Bachelor degree in Accounting from the Faculty of Commerce, Economic and Political Science in 1990; he has also obtained multiple certificates in the business and management fields.

Abdulaziz Al-Abdulrazaq

Board Member

Mr. Al-Abdulrazaq is a Board Member in ALARGAN International Real Estate Company Board of Directors. He also serves as a Vice Chairman in Al-Fajer Retakaful Insurance Company, a Board Member of First Brokerage Company, and a Board Member in Global Investment House-Sudan. Mr. Al-Abdulrazaq has over 16 years of experience in the investment sector and is currently the Vice-President of the Wealth Management Department in Global Investment House. Prior to joining Global, Mr. Al-Abdulrazaq held prominent positions in several Kuwaiti companies including Bayan Investment Company and Kuwait Investment Company. He was also a Board Member of Noran Holding Company. Mr. Al-Abdulrazaq received his Bachelor's degree in General Management from Eastern Washington University, Washington – U.S.A

Faisal Al-Mashaan
Board Member

Mr. Al-Mashaan is a Board Member in ALARGAN International Real Estate Company Board of Directors. He has over 20 years' experience in managing different business units and projects in various industries within the GCC region. Mr. Al-Mashaan began his career as a Manager in the Direct Investment Division of Coast Investment & Development Co. In 2006, he assumed the position of Financial & Administrative Director for ALARGAN General Trading & Contracting Establishment, and currently he is the General Manager of several investment companies that focus on opportunities in technology, insurance & the food industry. Recently, Mr. Al-Mashaan has become the first investor in Kuwait and Gulf Region to obtain the license of C-Bar, steel that is used as an alternative to conventional re-bar in the reinforcing of concrete structures. Mr. Al-Mashaan has a Bachelor degree in Science and Business Administration from Point Park College, Pittsburgh, Pennsylvania, and has also obtained various certificates in Investment, real estate, and international trade & technology.

Farqad Al Sane
Board Member

Mr. Al-Sane is a Board Member in ALARGAN International Real Estate Company Board of Directors and the Chairman of the Gulf Insurance Company. Under his leadership, the Gulf Insurance Company has grown and achieved strategic positioning among its local and regional competitors. He joined the Gulf Insurance Company (GIC) in 2001 with prestigious diversified, and successive working experience and held various management and board level positions in Kuwait. Mr. Al-Sane's diversified professional career started as Internal Auditor at the Kuwait Oil Company, Deputy General Manager of Wafra Real Estate Company; General Manager of Commercial Real Estate Company, Board Member of KIPCO Group; Board Member of United Real Estate Company; and the Chairman of Commercial Markets Complexes Company. Mr. Al Sane holds a BA in Commerce, with an Accounting major from Cairo University - Egypt.

Haitham Al- Khaled
Board Member

Mr. Al-Khaled is a Board Member in ALARGAN International Real Estate Company Board of Directors. He began his career with Mobile Telecommunications Company (Zain) as a Communications Engineer and rose through the corporate ladder to the position of CEO Middle East. He ended his 27-year run at Zain as the Chief Strategy and Business Development Officer of this company. With Zain he was instrumental in its regional and international expansion resulting in impressive returns to its shareholders. He also serves as a Board Member in several Kuwaiti companies such as the National Bank of Kuwait and Al-Shall Consulting & Investment Company. Mr. Al-Khaled has over 27 years' experience in the project management and business development fields. Mr. Al-Khaled holds a Bachelor degree in Electrical Engineering from Kuwait University and has completed several executive training courses form the London Business School.

Khaled Khudair Al-Mashaan
Chairman & Managing Director

Chairman's Message

Dear Shareholders,

On behalf of the Board of Directors and myself, I am pleased to present you with the annual report for the financial year 2012, which includes the financial results that the Group has achieved across all business segments during the year 2012.

Despite the turbulent market conditions and the instability of global and the domestic economic situation in the real estate sector in particular, the year 2012 witnessed several positive developments across our business lines. This confirms the success of our strategy and its assets which kept the company immune from market volatilities.

ALARGAN International Real Estate Company ended the year 2012 by achieving a net profit of KWD4.4mn or 17.09 fils earnings per share. The operating income increased across all business segments, as revenue from the development projects, rentals and resorts segments increased by 25%. Meanwhile, operating profits rose by 6.2% in comparison to 2011, despite a decline of 76% in the re- evaluation gains on investment property due to the company's conservative policy of valuing its properties.

The Company's total current assets rose by 52% in 2012, while total assets were up by 9.8%, whereas total current liabilities decreased by 29% compared to 2011. Also, the Equity attributable to shareholders' of the parent company increases by 3.2% compared to 2011, despite the distribution of a dividend amounting to KD 2,562,700 for the FY ended on December 31, 2012.

Return on equity (ROE) amounted to 6.3%, while return on assets was at 16.5% for the financial year-ended December 31, 2012. Accordingly, the Board of Directors recommended cash dividends of 7% of the nominal share value (representing 7 fils per share). Achieving these positive results in an unstable world economy is a testament to the stability and strength of our company.

Capital Intelligence (CI), the international credit rating agency, announced in January 2013 that it has affirmed the 'BBB-' Long-Term Rating of five-year bond issued by Alargan International Real Estate Company (AIREC) in 11 April 2012. The rating is supported by the company's strong financial profile, the geographically diversified business model, and the improving profitability.

Also supporting the Rating is the improved funding structure and the diminishing reliance on short-term borrowing, which, in turn, has improved liquidity. These are the first bonds issued by a real estate company since June 2010.

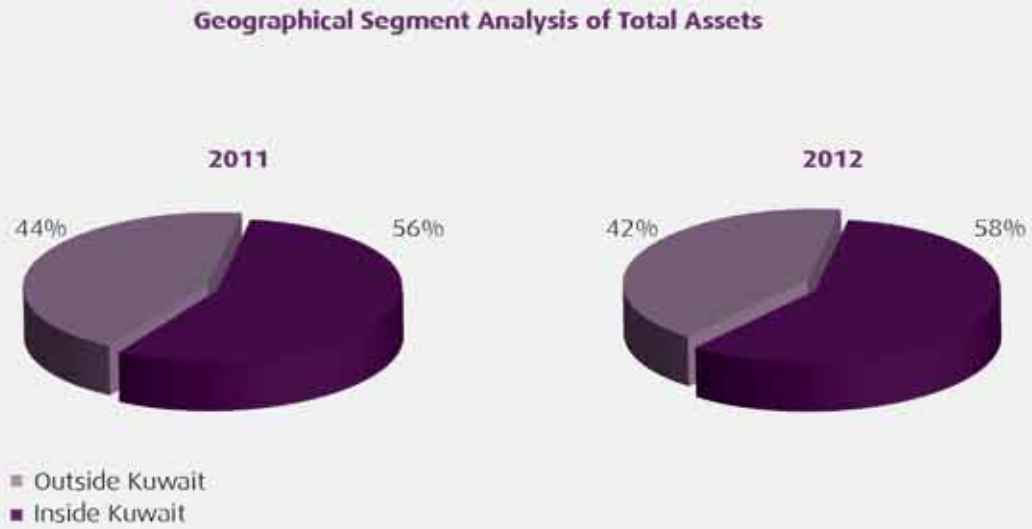
The Company always seeks to maintain steady growth, enhance its profit margins and to optimize returns on invested capital. It follows low-risk policies and strategies that work on the acquisition of good assets, and maintaining a diverse portfolio of real estate investments that range from income-generating assets to strategic assets, thus achieving higher growth and creating value for its shareholders and partners.

As the company is aware of its social responsibility to the community, it strives to play an active role in raising environmental, cultural, educational and social awareness in the society. It has assumed responsibility for the impact produced by its business activities on its customers, employees, shareholders, the environment and society as a whole.

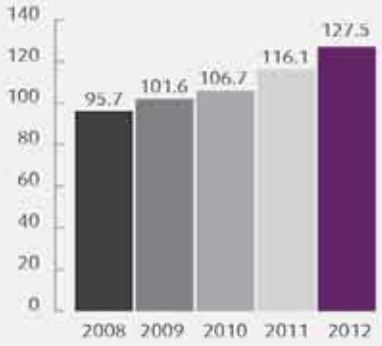
In conclusion, I would like to thank our shareholders and investors for their continued support and confidence in the company. I would also like to thank the Board of Directors and all the staff for their outstanding efforts in developing the company's business and preserving the rights of the shareholders.

Khaled Khudair Al-Mashaan
Chairman & Managing Director

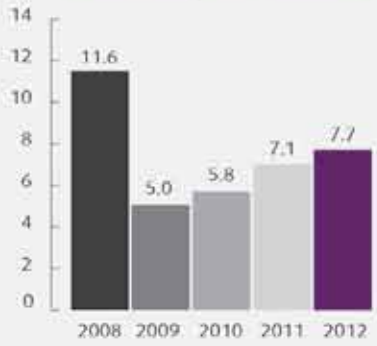
Operating Gross Profit
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
-2,000,000
2009
2010
2011
2012
Realized gain on sale of subsidiary
Realized gain on sale of Share in associates
Unrealized gain from changes in fair value of investment properties
Net gain from resorts
Net gain from rent
Group's share of results from associate
Net gain (loss) from projects


Geographical Segment Analysis of Total Assets
2011
44%
56%
2012
42%
58%
Outside Kuwait
Inside Kuwait

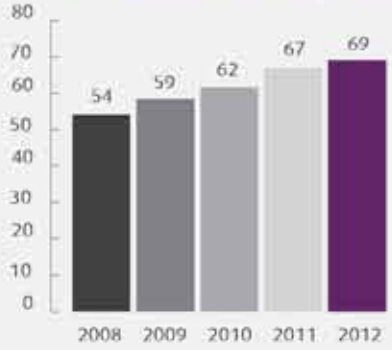
Total Assets (KDmn)



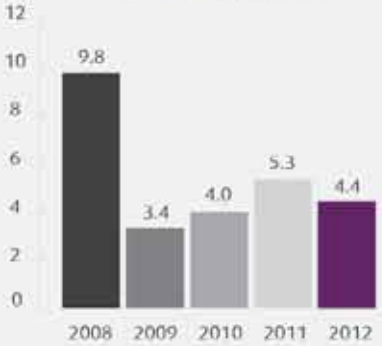
Operating Profit (KDmn)



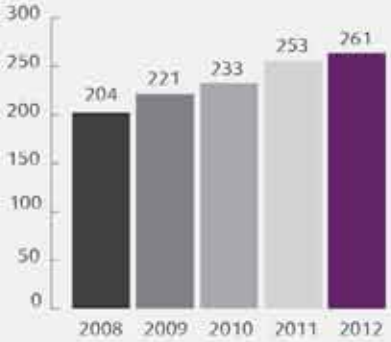
Equity Attributable to Shareholders of the Parent Company (KDmn)



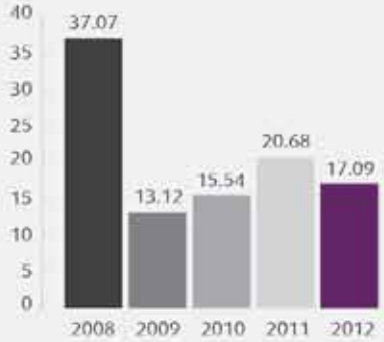
Net Profit (KDmn)



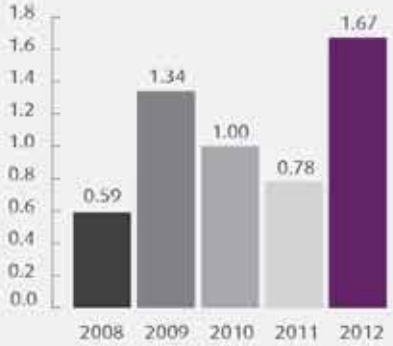
Book Value per Share (fils)



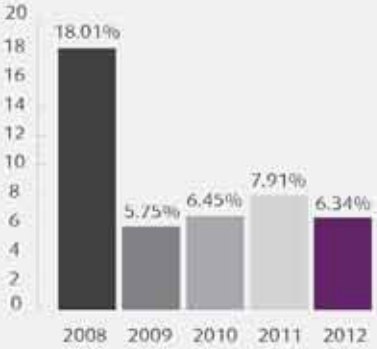
Earnings per Share (fils)



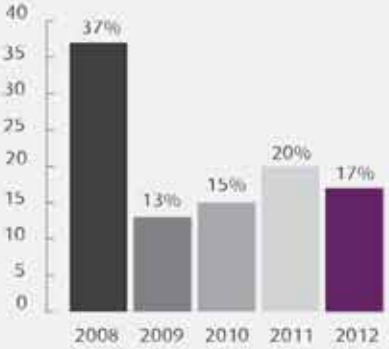
Current Ratio



Return on Equity



Return On Capital



Corporate Governance & Corporate Social Responsibility (CSR)

Corporate Governance

ALARGAN's Philosophy on Corporate Governance

As part of its efforts to monitor the company's performance and the quality of its products, ALARGAN adopted the highest international standards in Corporate Governance, with an aim to achieve best practices realizing its goals and maintaining the relationships with external and internal parties.

Our Corporate Governance is based on our commitment to values and ethical business conduct. This applies to our corporate structure, culture and policies, and to the manner in which we communicate with our stakeholders. Corporate Governance is primarily the responsibility of the Board of Directors as a group, along with the support of the managerial staff.

Corporate Governance applies to the timely and accurate disclosure of information regarding finances, performance, Board of Directors constitution and ownership of the company.

The Purpose of Corporate Governance

The purpose of Corporate Governance is to ensure adherence to the highest levels of transparency, accountability and equity in all areas of the company's operations and in all interactions with its stakeholders, including shareholders, employees, government and other entities. The company is committed to achieving the highest standards of Corporate Governance.

The Board of Directors constitutes the core of the Corporate Governance practice; ALARGAN believes that an active, well-informed and independent Board of Directors is necessary to ensure the highest standards of Corporate Governance.

The company's Corporate Governance practices comply with the requirements of the Listing Agreement with Stock Exchanges.

The Corporate Governance Policy has been adopted to assist the Board of Directors in the exercise of its responsibilities. This policy is subject to future amendments or changes as may be necessary in light of the amendments of various regulations governing governance requirements.

Board of Directors

ALARGAN is governed by a Board of Directors consisting of 6 members elected by the General Assembly of Shareholders for a term of 3 years. The Board of Directors meets at least four times per year.

In addition to overseeing management performance and protecting the long-term interests of the stakeholders, ALARGAN's Board of Directors' responsibility is to ensure strategic direction, management supervision and adequate control of the company, with the ultimate goal of increasing the long term value of the Company. The Board of Directors also reviews and approves the multi-year business plan and annual budget. It oversees management and provides guidance on achieving the objectives set out in the business plan and budget. The Board of Directors is supported in carrying out its duties by Committees.

Executive Management Committee

The Executive Management Committee's primary mission is to ensure the day-to-day management of ALARGAN according to existing laws, rules, regulations and best practices, and to ensure effective management of operational risks arising from inadequate or failed internal processes, people and systems or from external events. The Executive Management Committee members are vested with individual authority to investigate any company activity. The Committee is also authorized to appoint any external body to assist in the performance of its responsibilities.

Audit Committee

The role of the Audit Committee is to provide assistance to the Board of Directors in fulfilling its responsibilities towards the company and its shareholders relating to the accounting and financial reporting process and the audit of the corporation's financial statements. To that end, the Audit Committee oversees the management's processes and activities, thereby ensuring the reliability and integrity of the company's accounting policies, financial reporting practices and financial statements, the auditor's qualifications and impartiality, the performance of the Company's internal audit function and independent auditor, the compliance with laws and regulations as well as the requirements of the Kuwait stock exchange.

Risk Management Committee

The Risk Management Committee's main objective is to identify and reduce or eliminate risks and losses to ALARGAN's investments, security, interests, and employees, while striving to achieve its corporate and strategic objectives. The main responsibilities of the Risk Management Committee are to review and recommend amendments to the risk management policy, evaluate the adequacy and effectiveness of the ALARGAN business continuity plans, evaluate ALARGAN's exposure to fraud, maintain an appropriate review of risk action plans, and to ensure that any weaknesses identified in internal controls are followed up on in a timely manner.

Investment Committee

The Investment Committee acts as a fiduciary of the company and is expected to act in the best interest of the company at all times. The main responsibilities of the Investment Committee are to review and approve investments made by ALARGAN, review the progress of all of ALARGAN's direct investments, review and approve the sale of any of ALARGAN's investments and review and approve ALARGAN's direct investment financing options.

Projects Committee

The Projects Committee is entrusted with the responsibility of providing advice, recommendations, and direction to the Executive Management on administering an efficient annual planning cycle. The main responsibilities of the Projects Committee are to evaluate new opportunities, review the status of ALARGAN's projects, and develop concepts that reflect the highest possible efficiencies; review and approve business plans and set standards according to allocated budgets.

ALARGAN's Corporate Social Responsibility (CSR)

ALARGAN's strong adherence to the best practices of corporate social responsibility has proven the company to be a prestigious organization in terms of business ethics.

ALARGAN's commitment to being a socially responsible organization is evident in its participation in community outreach activities that aim to change, shape and positively influence society through local interaction.

ALARGAN's initiatives are designed to engage the community as well as to increase awareness and accessibility on several issues ranging from environmental and cultural, to social and educational.

Kuwait Green Building Council (KGBC)

ALARGAN is a member of the World Green Building Council, a non-profit organization that is committed to encouraging green building practices around the world. The global awareness of the urgent need to develop such practices is the reason for the formation of Green Building Councils around the world.

Realizing the importance of this matter, ALARGAN became one of the initiators and founders for Kuwait Green Building Council (KGBC), in order to promote and develop green building practices in Kuwait, and provide an opportunity to use resources more efficiently, while creating healthier and more energy-efficient homes and commercial buildings.

Internship Program

ALARGAN's commitment to corporate social responsibility was behind its internship program that allows youth to learn about business practices and get firsthand experience in the daily operations of the company. The program aims to offer young aspiring college students a chance to improve their skills by means of the internship program.

Bayt Abdullah Children's Hospice (BAACH)

ALARGAN provides financial and moral support to Bayt Abdullah Children's Hospice (BAACH), an organization that extends support and help to children who are terminally ill, allowing them to receive adequate care at the hospice or at home.

ALARGAN also supports a few of the notable organizations such as: Lothan Youth Achievement, Kuwait Association for the Care of Children in Hospital and the Kuwait Institute for Scientific Research.

Graduation project

Part of our company's efforts to support the younger generation in pursuing their education and interests. In 2012, ALARGAN sponsored a graduation project for a number of students of the Faculty of Engineering and Petrol. The project, "Joon Al-Kuwait", aims to develop the area located between Watiyah and Sebiyah, which in the near future will be the site for one of the most important cities in Kuwait. Supporting the project is part of Alargan's initiatives to increase awareness in society and encourage volunteer work in the community.

Executive Management

Executive Management

Khaldoon Rashid
Head of Legal Department

Mr. Khaldoon is the Head of Legal Department at ALARGAN. He has over 12 years experience in legal profession and in providing legal advice. Before joining ALARGAN, Mr. Khaldoon worked in a well known prestigious Law firms and leading real estate and Investment companies. He worked in Global Investment House (Global) as a Legal Consultant where he was responsible for the company's activities and subsidiaries legal affairs inside and outside Kuwait. Mr. Khaldoon's experience is varied between the provision of 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. In addition, he is a member of the Jordanian Bar Syndicate since 2001. Mr. Khaldoon has a Bachelor degree in law from Applied Science University in Amman- Jordan, 1999. He also obtained his Master in Commercial Law from Aberdeen University, Scotland, in 2001.

Marwan Asa'd
Chief Planning Officer

Mr. Asa'd has 30 years of experience in the field of construction, real estate development and operations, and has held a number of senior positions. Prior to joining ALARGAN International Real Estate Company in 2010, he held the position of Executive Vice President of Mazaya Qatar Real Estate Development Co. where he oversaw the Company's entire real estate development and operation in Qatar. Prior to that, he was the Executive Vice President of Project Development for Mazaya Holding Co. where he managed all of the company's projects in the region.

Mr. Asa`d became a Chartered Professional Engineer (CPEng) accredited by The Institution of Engineers - Australia in 1993 and holds a Bachelor of Science in Civil Engineering from West Virginia Institute of Technology since 1982.

Meshan Al-Meshan
Head of Asset Management, VP - Investment

Mr. Al-Meshaan's main work experience has been in the areas of Banking, Investment and Real Estate. Mr. Al-Meshaan began his career in the year 2000 at the National Investors Group (N.I.G.), the private equity subsidiary of the National Bank of Kuwait (NBK). Based in New York, his responsibilities included sourcing and analyzing potential equity and fund investments, performing extensive due diligence on prospective investments, monitoring the groups USD 150 million portfolio using monthly reports and board observer roles. Prior to joining ALARGAN by mid 2006, Mr. Al-Meshaan was part of the Treasury Department at NBK's Head Office in Kuwait, where he gained his ACI Dealing Certificate and was responsible for servicing all conventional and investment, treasury products to the bank's corporate and private clients. Additionally he assisted in the management of the bank's USD 1 billion Money Market Funds. In addition to his current role at ALARGAN International, Mr. Al-Meshaan serves on the board of several of ALARGAN's affiliate companies in Kuwait and the region. He is also active in the local community and serves on the board of a private non-profit organization (NPO), INJAZ Kuwait, which delivers educational programs aimed at inspiring future generations. Mr. Al-Meshaan received a Bachelor of Science in International Business from the University Of Denver, Colorado, U.S.

Naser Bastaki
Chief Operation Officer

Mr. Bastaki has over 22 years of experience in civil, marine and military constructions and project management with leading institutions in Kuwait and the GCC. Before joining ALARGAN, Mr. Bastaki was the Managing Director of Mubarakia Marine Service Company – Qatar. Prior to that, he has held a number of Management and Executive positions within the Ministry of Defense in Kuwait for 16 years, leading numerous projects with the Kuwaiti Air force, British Royal Air force and the U.S Army Corps of Engineers. Mr. Bastaki graduated from Temple University Philadelphia, U.S.A with a Bachelor degree in Civil Construction Engineering. He also holds a Civil Construction Diploma from the Kuwait Institute of Applied Technology.

Pierre Abou Khalil
Chief Support Officer

Mr. Abou Khalil has over 14 years of experience in the fields of Human Resources, Administration and IT; He has worked in the Middle East and GCC region covering a variety of industries such as Banking, Retail, Wholesale and Real Estate. Prior to joining ALARGAN, Mr. Abou Khalil held the position of Regional HR Manager – Middle East with Chalhoub Group. Mr. Abou Khalil is a member of the Selection Committee / Jury of the "Ecole Superieure des Affaires – ESA" in Beirut since 2005, he has been teaching Business and Human Resources in several universities in Lebanon and Kuwait. He holds a Bachelor Degree in Computer Sciences and Masters Degree in Human Resources Management from the Universite Saint Joseph in Beirut.

Ramy Echo
Chief Investment Officer

Mr. Echo is the Chief Investment Officer of ALARGAN. He has over 17 years' experience in the Levant and the GCC in corporate banking, investment banking, consulting, and real estate. Before joining ALARGAN, Mr. Echo was running his own investment banking boutique providing advisory services to regional institutions. Prior to that, he was the Head of Corporate Finance at SICO, a leading regionally focused investment bank where he managed many investment banking transactions in debt and equity capital markets, acquisitions, privatizations and private equity. Earlier on, he advised regional banks and financial regulators with Deloitte Consulting as senior consultant focused on financial services strategy and operations in the Middle East. His career began on the corporate banking side of Bank Audi where he managed a corporate loan portfolio and financed various projects and companies. Mr. Echo holds a Master's degree in Finance from ESA and ESCP Europe. He has also conducted his executive education at INSEAD.

Executive Management

Sherif Omara
Chief Financial Officer

Mr. Omara has over 22 years of experience in the field of accounting, finance, and investment. During his career, he has held several high-ranking positions at various leading GCC companies in the investment, finance, leasing, Ijarah, audit fields, as well as other economic activities. Mr. Omara joined ALARGAN in the year 2000 and has restructured the finance department. He is also responsible for monitoring the development of the Group's financial strategies, overseeing the financial and accounting policies, preparing financial statements and other financial reports. In addition, he is supervising and regulating the Group's financial and accounting systems, and financing structures. His job responsibilities include arranging financing facilities for the Group. Mr. Omara holds a Bachelor of Commerce degree with an Accounting Major from Ain Shams University, in The Arab Republic of Egypt.

Walid Amin
Regional Financial Controller

Mr. Walid joined ALARGAN in 2006 bringing with him over 10 years of experience at one of the leading global institutions in accounting, auditing and consultancy services. He has participated in several major auditing engagements covering a variety of industries (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. Walid has also participated in the preparation of several individual and corporate claims for compensation resulting from the Iraqi invasion of Kuwait submitted to the United Nations Compensation Committee. He has also coordinated the listing of several shareholding companies including the preparation of the related prospectuses on the Kuwait Stock Exchange. Mr. Walid holds a Bachelor of Commerce Degree with an Accounting major from Cairo University in Egypt.

Management Discussion and Analysis

Management Discussion and Analysis

MARKET OVERVIEW

Despite the challenging environment that resulted from the 2008 financial crisis, the macroeconomic fundamentals within the GCC region remained attractive where public spending has bolstered the non-oil economy and helped these economies to shield themselves and prop up investors' confidence in the region.

In terms of outlook, among the real estate markets in the GCC region, Kuwait, UAE, Saudi Arabia and Oman offer attractive investment opportunities in the near term and markets such as Bahrain and Qatar are favorable in the medium term. This overview will focus on the markets where ALARGAN operates.

ALARGAN has carefully selected its geographic target markets within the GCC countries that offer lucrative opportunities primarily in affordable and middle income housing. The longer term plan for ALARGAN will be to expand regionally to other growing markets while maintaining affordable and middle income housing as its core business.

ALARGAN has also invested in the real estate value chain by establishing different subsidiaries and holding strategic stakes in different real estate related companies in selected markets. This vertical integration of real estate services enabled ALARGAN to deliver quality affordable and middle income housing to the market at competitive prices.

State of Kuwait

Kuwait's real estate sector witnessed a significant growth over the past couple of years. This growth was supported by a booming local economy backed by rising oil prices and output, monetary and fiscal policies and favorable macroeconomic conditions in general. The residential segment of the market was driven by a continuously growing population and shortage of supply, where the number of standby cases registered at The Public Authority for Housing Welfare increased to more than 100,000 applications at the end of 2012. The 5 year (2011-2016) USD 130 billion Kuwait Development Plan should also further stimulate the real estate and construction industry that is expected to maintain its growth mainly supported by high oil prices and government spending. The construction sector value is estimated to rise from KD 711.67 million (USD 2.5 billion) in 2012 to KD 967.87 million (USD 3.4 billion) by 2016 and KD 1.5 billion (USD 5 billion) by 2021.

Kuwait's retail segment reflects strong growth with many shopping malls being developed in the past five years and several upcoming projects in the pipeline for 2013. The main driver behind this growth is the local spending culture supported by high levels of disposable income. Other factors, such as the increasing number of expatriates, urbanization and increasing consumer spending along with more women entering the workforce are likely to result in the value of the retail segment rising by 41.1% from KD 2.40 billion (USD 8.91billion) in 2012 to KD 3.45 billion (USD 12.83 billion) by 2016.

The hospitality segment in Kuwait is a key partner in the country's economic development. A number of international hotel operators and local conglomerates have been expanding their budget brands in the country where hoteliers are capitalizing on the opportunities in this sector.

The government has been proactively supporting the real estate sector through favorable regulations and by injecting liquidity into the economy. A significant portion of the Kuwait Development Plan is expected to benefit the real estate and construction sector. Furthermore, Kuwait Investment Authority (KIA) committed to deploying KD 1 billion into the commercial property market that is still suffering from the oversupply in the office buildings segment since 2008 financial crisis.

Kingdom of Saudi Arabia

The Kingdom has emerged as one of the most favorable investment destinations for real estate development. The real estate sector received a boost after the Saudi Government announced ambitious investment plans in the Kingdom's infrastructure development through launching the largest stimulus plan of SAR 1 trillion (USD 400 billion) over the period of the Ninth Five Year Development Plan (2010-2014), which will strongly contribute to supporting the real estate sector and enhancing its role in the economy.

Saudi Arabia is expected to face a shortfall of up to 1.5 million housing units by 2014, according to the estimates of the Kingdom's five year plan. In view of this, the Saudi government gave a high priority to addressing the current shortage of housing for low and middle income residents and has recently announced the allocation of approximately SAR 250 billion (USD 67 billion) for the construction of 500,000 units in order to meet the Kingdom's rising demand.

The success of real estate projects relies on providing the correct mix of components to the market at the right price and tenure to take advantage of the supply shortfall. Towards this end, ALARGAN is offering competitive residential schemes including apartments and villas both for sale and rent to cater to the current and future demands in the market.

Sultanate of Oman

The Omani real estate sector displayed significant demand in various segments and especially in the residential segment. The value of real estate transactions in the sultanate experienced an increase of 45.7% in 2012. This growth was also attributed to the increased activity in the industrial and logistics sectors.

The real estate sector in Oman is expected to maintain its momentum over the medium term, underpinned by its continuously growing population, the inflow of expatriates, high level of liquidity, financing availability, low construction costs, government spending, capital inflows and foreign ownership legislation. Oman's housing sector is still at a nascent stage when compared to its GCC peers, despite the government taking a series of initiatives to build affordable houses for its citizens. The supply shortage in quality affordable and middle income housing has contributed to an increase in demand which is expected to be reinforced in the future with the young population growing at an average of 2.1% per annum.

As a part of Oman's long-term development strategy, "vision 2020", the Sultanate has committed to reduce its dependence on oil related revenues by increasing the contribution of other sectors to Oman's GDP. The vision gave a special attention to the tourism sector by considering it to be primary tool for sustainable economic development and growth. The Omani market represents an attractive destination for real estate investments and will continue to witness considerable growth due to the proactive government initiatives and the stability that the country provides to foreign investors and property owners.

Kingdom of Bahrain

Despite previous challenges, the Kingdom gradually recovered in 2012 by recording an estimated 3.9% growth in GDP. This rebound was mainly supported by higher oil contribution as well as an increase in bank lending and government spending some of which was allocated to the housing sector. Growth is also likely to be maintained in 2013 due to planned large-scale industrial investments and growth in infrastructure spending.

In light of these events, a number of national reforms were initiated to address some of the issues facing part of the local population including a payout of BD 1,000 per family, the creation of 20,000 new jobs by the Interior Ministry and an increase in the subsidized housing loan ceiling from BD 40,000 to BD 60,000 which will be paid over 30 years instead of 25 years These measures have contributed to improved market conditions during 2012, however still underpinned by the social and political unrest.

The Kingdom's real estate sector has also experienced a positive growth during the year specifically with an increase in demand for low and middle income housing. The total value of real estate transactions reached BD 663.9 million in 2012 representing a 46% increase compared to 2011 levels. Growth was mainly driven by domestic demand where Bahraini nationals accounted for 84% of the total transactions.

The residential segment benefited from the Government investment commitment of USD 550 million through a public-private partnership (PPP) to develop social housing. The Ministry of Housing also announced its intention to supply 4,000 housing units in 2012 and 10,000 the following year in order to meet the present and future demand of more than 50,000 families on the waiting list for state accommodation.

ALARGAN's focus in Bahrain is geared towards providing middle income housing to the local population; a segment supported by strong demand and largely unattended by both the private and public sectors.

ALARGAN BUSINESS ACTIVITIES

ALARGAN's business activities can be classified under 6 main lines of businesses:

1. Real Estate Development
   - Kuwait
   - Saudi Arabia
   - Oman
   - Bahrain
2. Hospitality (including Leisure & Retail)
3. Property Management (including Brokerage)
4. Project Management (including Engineering & Design)
5. Contracting
6. Advisory Services

Real Estate Development

ALARGAN International Real Estate Company - Kuwait

In 2012, ALARGAN was actively involved in assessing several investment opportunities in Kuwait. The primary focus during this year was utilizing opportunities to develop retail income generating properties on a long-term lease basis.

The company assessed several opportunities, mainly located in Salmiyah, Sabah Al Salem, Messila, Shaab Al Bahri, Kuwait city, and Bneid al Gar. These projects focused mainly on developing retail commercial complexes, as well as residential apartments.

The company signed a long term Build, Operate and Transfer (BOT) contract in mid-2012 to build and operate a retail commercial complex in a prime location in Salmiyah on a 7,000 m^2 property. The project is expected to be a landmark income-generating property for ALARGAN, while generating a decent level of recurring income.

ALARGAN Projects - Saudi Arabia

ALARGAN was established in Riyadh in 2006, in partnership with strategic local investors. ALARGAN Projects became one of the leading middle income housing developers in the Kingdom, aiming to deliver 10,000 residential units by 2017.

In 2012, the performance of Alargan Projects performance exceeded expectations. The company continued to expand and added new projects to its portfolio to reach eight projects. The company initiated three projects in its strategic plan for Riyadh City. These projects, Manazel Qurtoba 2, Shourouq and Mashariq AlRiyadh will deliver 1,920 housing units in total.

The company's financial stability and reputation, specifically in developing superior real estate solutions, resulted in awarding the company for the first time a permit of Off Plan Sale from the Ministry of Commerce for its apartments in "Manazel Qurtoba 1" – Riyadh. This is an important step towards securing additional financing for the project. Moreover, during 2012 the company successfully signed two major partnership contracts to develop new housing units; the first was made with MEFC capital for "Manazel Qurtoba 2" project, and the second agreement with Jadwa Fund to develop 396 apartments in "Manazel Qurtoba 1".

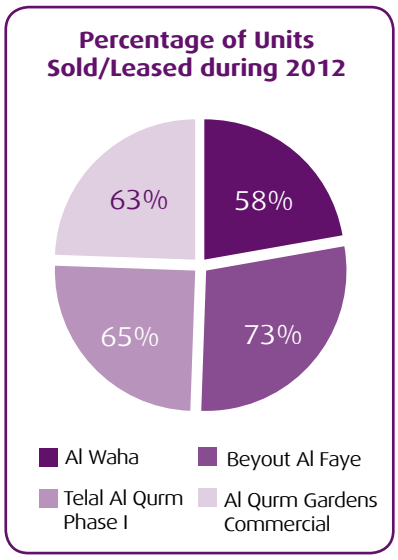
Alargan Projects was awarded with the Social Responsibility Award from the Arab Organization of Social Responsibility in December 2012. The award was a result of the company's continuous contribution to serving the community and its strong commitment to ethics.

ALARGAN Towell Investment Company - Oman

In 2003, ALARGAN Towell Investment Company was established as a strategic alliance between ALARGAN International Real Estate Company and W.J. Towell in the Sultanate of Oman. ALARGAN Towell

strives to provide the Omani society with innovative, affordable housing with a focus on the middle income segment. Since its inception, ALARGAN Towell has expanded to encompass leisure, touristic and mixed-use developments with projects accumulating over 2,186,000 m^2.

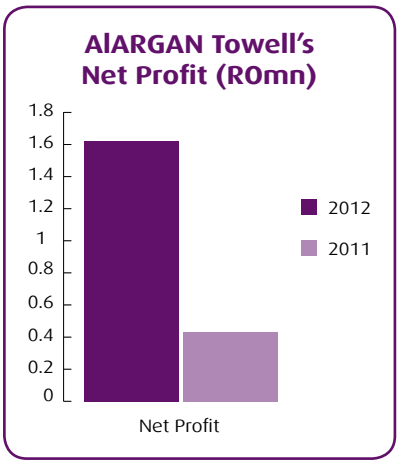
During 2012, there was significant progress in Alargan Towell's projects in Oman. The company is currently developing the infrastructure for its flagship project, Qurm Hills, on a 165,000 m^2 of land in the Qurm area. ALARGAN Towell was also able to sell all the residential units in five buildings out of eleven that it is currently developing on a 11,000 m^2 of land in the project. ALARGAN Towell has also fully sold all the 48 units of Phase I in Beyout Al Faye project in Al Khoud area. Additionally, the company has launched Al Waha project which is a residential community complimented with a retail and commercial complex spanning over 684,000 m^2 of land in Barka City. The company is also planning a large scale ITC project on a 500,000 m^2 waterfront property between Muscat and Barka city which is expected to be developed in phases over the next five years.

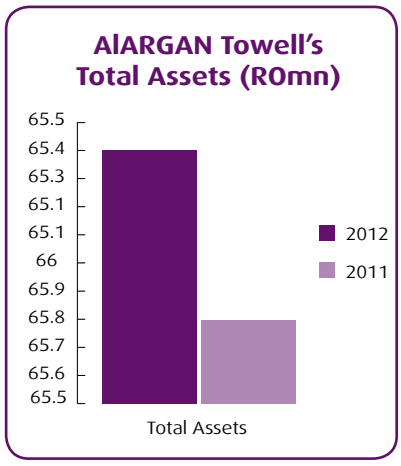


Source: ALARGAN Towell Sales team

Furthermore, Alargan Towell signed two new development contracts in 2012; one for the "Telal al Qurm" project in Al Qurm and another for the "Beyout AlFaye" - phase 2 project in Al Khoudh.

The company has also successfully exited one of its projects, The Oberoi Resort in Al Kiran. Another notable achievement by ALARGAN Towell in 2012 is that the company turned debt free at corporate level.





ALARGAN Bahrain - Bahrain

ALARGAN was established in Bahrain in 2005 in partnership with a local strategic investor. The company's primary aim is to develop residential properties for the middle-income market segment without compromising the high standards of quality and excellence that are now synonymous with the ALARGAN name.

Building on the success of its initial projects in Saar and Bu Quwah, ALARGAN Bahrain has launched two new developments in the Kingdom, both encompassing residential and commercial components targeting the middle-income market segment.

Despite recent market challenges resulting from social and political unrest, ALARGAN Bahrain managed to meet its sales targets in 2012 through recording sales level levels of up to 80% of the total project in addition to successfully delivering the sold units in Jeyoun Residential to residents. ALARGAN Bahrain succeeded in adding more facilities to support the end users by signing an end user financing agreements for the same project with the largest financing institutes such as but not limited to ESKAN Bank, BBK, Bahrain Islamic Bank, ALBARAKA Bank and Kuwait Finance House.

Moreover, during 2012, ALARGAN Bahrain launched a new commercial project in Bu Quwah named Jeyoun Al Qaryah. With a unique design, this project aims to be a new commercial destination in Bahrain.

The reason behind ALARGAN's success in Bahrain is a simple formula: delivering a high quality and affordable product in the market with limited supply and continuously increasing demand supported by Government reforms.

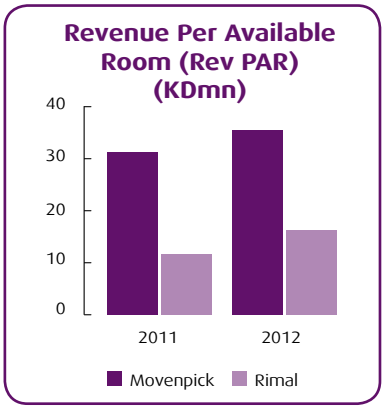
Hospitality (including Leisure & Retail)

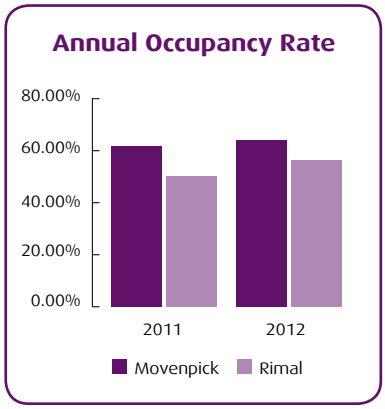
ARGANA for Resorts and Hotels Company

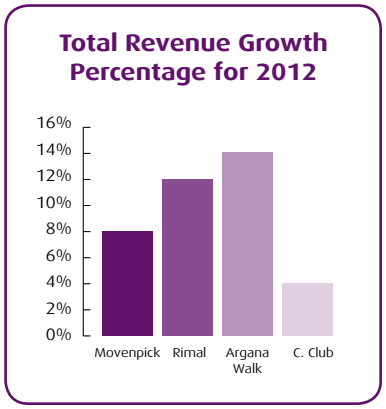
ARGANA for Resorts and Hotels Company was established in 2006 as the hospitality investment arm of ALARGAN, currently holding its hospitality assets in Kuwait. The company encompasses a diversified asset portfolio including the 306 keys Mövenpick Hotel and Resort Al Bida'a, the C Club, an exclusive member's only club, 115 keys Rimal Hotel & Resort and Argana Walk, the modern lifestyle commercial strip. All of the company's assets are currently operational and generating recurrent revenue.

ARGANA's revenue increased by 10% in 2012 and was mainly driven by the growth in hotels revenue and commercial strip rents.

The Mövenpick Hotel & Resort revenue grew by 8% supported by higher occupancy and average room rates. The hotel was also able to control its expenses, which improved gross operating profit by 14%. This trend is expected to continue in 2013 as the hotel is planning to renovate some of its rooms, restaurants and meeting rooms. The hotel won the award for best commercial team in the Middle East among Mövenpick hotels. Rimal Hotel & Resort revenue went up by 12%, occupancy by 6%, and gross operating profit by 36%. The Resort is planning to refurbish some of the chalets which should contribute to significantly higher revenues once completed. C Club revenues were stable during 2012, mainly affected by the club renovation. The commercial strip rental revenues reflected a significant 30% increase during 2012; largely due to the renewal of expiring leases and the completion of the new Rimal strip shops.



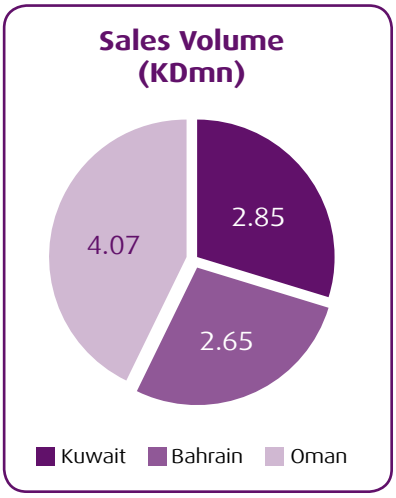




Property Management (including Brokerage)

ALARGAN Gulf Real Estate Services Company

ALARGAN Gulf was established in 2006 as an affiliate of ALARGAN International Real Estate Company by spinning off its sales and real estate department. The company was successful to running independently and expanding to Oman and Bahrain in addition to its already established set up in Kuwait. ALARGAN Gulf offers property management and brokerage services in addition to conducting market research, valuation and feasibility studies.



The demand in the residential segment in Kuwait was supported by steady population growth, limited supply and increase in purchasing power. ALARGAN Gulf played a vital role in catering to this demand through its commitment to providing unsurpassed resident services and maintains attractive, supportive living environments for its clients. The company was also shortlisted in a number of property management tenders and has recently been focusing on delivering its services to the public sector. ALARGAN Gulf has successfully leased 96% of the commercial spaces in ARGANA Walk in Al Bida'a and was able to achieve a sales volume of KD 2.8 million during the year in addition to leasing around 6,000 m^2 of commercial space. Despite challenging market conditions in Bahrain, strong local demand for middle income housing also contributed to generating sales with a total value of KD 2.65 million. While in Oman, the investors' confidence was the main driver to the strong demand for quality affordable housing as sales volume recorded KD 4.07 million in 2012. The total gross sales for the three countries reached KD 9.5 million.

Project Management (including Engineering & Design)

ALARGAN Real Estate Project Management Company - AREPMC

Along with its regional development in the region, ALARGAN established a project management company in Kuwait in 2007 with a team of highly qualified and experienced professional Engineers and Architects, who provided a wide spectrum of services to achieve sustainable and affordable quality living, working and recreational spaces and facilities. In 2012, AREPMC undertook design and project management services for various projects with a construction value in the order of KD 32 Million in the GCC countries. The company was also ranked 'Highly Commended' in the Residential Project Award - Built category at the Cityscape Real Estate Awards, MENA 2012 for the Jeyoun Townhouses Project. Since its establishment, AREPMC expanded its services to the GCC and the MENA region and probed the local market for projects and will continue to pursue future business prospects.

Contracting

ALARGAN National General Trading and Contracting Company

ALARGAN's National origins go back to 1994 with the establishment of ALARGAN General Trading and Contracting Establishment that was subsequently converted to ALARGAN National General Trading and Contracting Company and is currently a fully owned subsidiary of ALARGAN.

ALARGAN National has been recognized by its peers as a leading construction company in Kuwait and the region, due to its commitment to the highest industry standards, as well as adhering to the international standards of Occupational Health & Safety and Environment Management System.

During 2012, ALARGAN National was awarded 5 new projects with an estimated value of approximately KD 3.5, bringing the value of projects under execution to around KD 19.5 million. The company had its

classification upgraded during the year to Class 2 for construction and Class 3 for electrical works by the Central Tenders Committee in Kuwait. ALARGAN National maintained the successful execution of outstanding projects both on the construction and electrical side for the private and public sectors.

Advisory Services

ALARGAN International Real Estate Company

In addition to its development activities, ALARGAN International offers real estate advisory services by capitalizing on its expertise and industry know-how in the form of real estate portfolio mandates. ALARGAN International currently manages 3 main mandates amounting to USD 150 million.

ALARGAN International serves as an investment advisor to the Global GCC Real Estate Fund that was established in 2005 and is currently in a divestment stage. The fund is the first Gulf oriented real estate fund managed by Global Investment House, and is focused mainly on residential developments, as well as investing in income generating assets offering attractive returns to its investors.

In 2012, ALARGAN International's efforts were directed towards exiting the fund's assets that will materialize during 2013. The fund has returned 60% of its capital back to its shareholders and should be fully liquidated by the end of 2013.

ALARGAN International also serves as an investment advisor to an institutional portfolio that was established in 2008. The portfolio is mainly focused on residential developments in the GCC region, and is currently 30% invested. 2012 activities are mainly focused on sourcing and assessing investment opportunities in Saudi Arabia.

ALARGAN International also provides advisory services to private client who has a real estate portfolio comprised of one asset, with residential and commercial components located in Oman. During 2012, the project's sales were initiated and the infrastructure works began.

The scope of advisory services that ALARGAN International provides includes fund strategy and structure recommendations, deal sourcing, asset due diligence, asset acquisition and structuring, exit strategies and implementation.

Consolidated Financial Statements

32 I Independent Auditors' Report
34 I Consolidated Statement of Financial Position
35 I Consolidated Statement of Income
36 I Consolidated Statement of Comprehensive Income
37 I Consolidated Statement of Changes In Equity
38 I Consolidated Statement of Cash Flows
40 I Notes to Consolidated Financial Statements

INDEPENDENT AUDITORS' REPORT

AL-WAHA
AUDITING OFFICE
ALI OWAID RUKHAEYES

Member of The International Group of Accounting Firms

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The Shareholders,
AlARGAN International Real Estate Company - K.S.C. (Closed)
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. (Closed) (the Parent Company) and subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory 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 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.

AL-WAHA
AUDITING OFFICE
ALI OWAID RUKHAEYES

RSM Albazie & Co.
Public Accountants

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. (Closed) (the Parent Company) and subsidiaries (the Group) as of December 31, 2012, and its financial performance and its cash flows for the 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, and the Parent Company's Articles 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, 2012 of either the Companies Law No. 25 of 2012, or of the Parent Company's Articles of Incorporation which might have materially affected the Group's financial position or results of its operations.

Ali Owaid Rukheyes
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 14, 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012

ASSETS	Note	2012	2011
Current assets:			
Cash and cash equivalents	3	**5,872,664**	586,592
Murabaha investments	4	**805,867**	805,867
Due from customers for contract work	5	**2,313,383**	714,921
Accounts receivable and other debit balances	6	**6,597,895**	4,015,969
Due from related parties - current portion	7	**8,554,470**	6,973,451
Land held for trading	8	**8,046,115**	7,953,978
Inventory	9	**289,633**	264,501
Total current assets		**32,480,027**	21,315,279
Due from related parties - non-current portion	7	**10,811,962**	7,062,632
Investment in associates	10	**24,333,665**	28,710,556
Investment in unconsolidated subsidiaries	11	**121,847**	-
Investments available for sale	12	**691,279**	772,423
Investment properties	13	**55,687,504**	54,674,344
Right of utilization of land for development		**124,520**	137,401
Fixed assets	14	**3,254,999**	3,470,456
Total assets		**127,505,803**	116,143,091
LIABILITIES AND EQUITY			
Current liabilities:			
Due to banks	15	**-**	1,188,526
Short term loans installments	16	**7,658,667**	4,263,787
Short term Murabaha contract installments	17	**6,139,021**	16,874,663
Due to customers for contract work	5	**94,351**	57,223
Accounts payable and other credit balances	18	**5,475,161**	5,029,325
Dividend payable	19	**119,347**	36,498
Total current liabilities		**19,486,547**	27,450,022
Long term loans installments	16	**9,888,000**	13,588,000
Long term Murabaha contract installments	17	**9,132,692**	95,629
Long term bonds	20	**16,237,447**	-
Due to related parties	7	**1,919,395**	2,443,516
Advance payment on partial sale of an associate	21	**-**	4,139,732
Provision for indemnity		**1,001,026**	773,376
Total liabilities		**57,665,107**	48,490,275
Equity:			
Capital	22	**26,500,000**	26,500,000
Share premium	23	**15,811,095**	15,811,095
Statutory reserve	24	**5,011,607**	4,558,871
Voluntary reserve	25	**4,282,637**	3,829,901
Treasury shares	27	**(3,420,920)**	(3,420,920)
Cumulative changes in fair value		**44,774**	71,549
Foreign currency translation adjustments		**(465,285)**	(783,693)
Group's share of other comprehensive income of associates		**27,250**	(4,136)
Retained earnings		**21,315,569**	20,405,368
Equity attributable to shareholders of the Parent Company		**69,106,727**	66,968,035
Non-controlling interest		**733,969**	684,781
Total equity		**69,840,696**	67,652,816
Total liabilities and equity		**127,505,803**	116,143,091

The accompanying notes (1) to (45) form an integral part of the consolidated financial statements

Khaled Khudair Mashaan Khudair Al-Mashaan
Chairman and Managing Director

Hamad Abdullah Gasem Al Mudaf
Vice Chairman

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
Net gain (loss) from projects	28	**477,555**	(87,766)
Net gain from rent	29	**2,119,712**	1,953,543
Net gain from resorts	30	**3,308,127**	2,863,102
Group's share of results from associates	10	**2,896,765**	3,935,395
Gain from partial sale of associate	10 - b	**2,068,406**	-
Unrealized gain from change in fair value of investment properties	13	**493,268**	2,036,665
Operating gross profit		**11,363,833**	10,700,939
General and administrative expenses	31	**(3,481,292)**	(3,345,101)
Depreciation and amortization		**(147,369)**	(251,167)
Operating profit		**7,735,172**	7,104,671
Net investment income (loss)	32	**22,328**	(103,714)
Interest income		**48,325**	15,483
Finance charges		**(3,263,429)**	(1,447,260)
Provision for doubtful debts	6-b	**(7,869)**	(107,185)
Gain on sale of fixed assets		**27,344**	22,341
Foreign exchange gain (loss)		**12,414**	(62,510)
Other revenue		**1,002**	3,730
Profit for the year before, National Labor Support Tax and Board of Directors' remuneration		**4,575,287**	5,425,556
National Labor Support Tax	34	**(118,990)**	(9,623)
Board of Directors' remuneration	36	**(30,000)**	(25,000)
Net profit for the year		**4,426,297**	5,390,933
Attributable to:			
Equity holders of the parent company		**4,378,373**	5,299,901
Non-controlling interest		**47,924**	91,032
Net profit for the year		**4,426,297**	5,390,933
Earnings per share attributable to shareholders of the Parent Company (fils)	37	**17.09**	20.68

The accompanying notes (1) to (45) form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
Net profit for the year		**4,426,297**	5,390,933
Other comprehensive income:			
Cumulative change in fair value	12	**(26,775)**	95,131
Exchange difference on translation of foreign operations		**203,446**	(146,359)
Reversal of foreign currency translation reserve due to partial sale of associate		**114,962**	-
Group's share of other comprehensive income of associates	10	**32,650**	2,474
Other comprehensive income (loss) for the year		**324,283**	(48,754)
Total comprehensive income for the year		**4,750,580**	5,342,179
Attributable to:			
Shareholders of the parent company		**4,701,392**	5,251,019
Non-controlling interests		**49,188**	91,160
Total comprehensive income for the year		**4,750,580**	5,342,179

The accompanying notes (1) to (45) form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	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 adjustments	Group's share of other comprehensive income of associates	Retained earnings	Sub Total	Non-controlling interest	Total
Balance at December 31, 2010	26,500,000	15,811,095	4,025,419	3,296,449	(3,420,920)	(23,582)	(637,334)	(6,482)	16,172,371	61,717,016	593,621	62,310,637
Total comprehensive income (loss) for the year	-	-	-	-	-	95,131	(146,359)	2,346	5,299,901	5,251,019	91,160	5,342,179
Transferred to reserves	-	-	533,452	533,452	-	-	-	-	(1,066,904)	-	-	-
Balance at December 31, 2011	26,500,000	15,811,095	4,558,871	3,829,901	(3,420,920)	71,549	(783,693)	(4,136)	20,405,368	66,968,035	684,781	67,652,816
Total comprehensive (loss) income for the year	-	-	-	-	-	(26,775)	318,408	31,386	4,378,373	4,701,392	49,188	4,750,580
Transferred to reserves	-	-	452,736	452,736	-	-	-	-	(905,472)	-	-	-
Cash dividends 10% (Note 19)	-	-	-	-	-	-	-	-	(2,562,700)	(2,562,700)	-	(2,562,700)
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**

The accompanying notes (1) to (45) form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
Cash flows from operating activities:			
Profit for the year before NLST and Board of director's remuneration		**4,575,287**	5,425,556
Adjustments:			
Depreciation and amortization		**654,060**	676,313
Group's share of results from associates		**(2,896,765)**	(3,935,395)
Gain from partial sale of associate		**(2,068,406)**	-
Unrealized gain from change in fair value of investment properties		**(493,268)**	(2,036,665)
Impairment loss from investments available for sale		**62,788**	134,278
Dividend income from investments available for sale		**(85,116)**	(30,564)
Provision for doubtful debts		**7,869**	107,185
Finance charges		**3,263,429**	1,447,260
Gain on sale of fixed assets		**(27,344)**	(22,341)
Interest income		**(48,325)**	(15,483)
Provision for indemnity		**301,264**	277,050
Foreign currency translation adjustments		**151,775**	(137,551)
		3,397,248	1,889,643
Changes in operating assets and liabilities:			
Due from (to) customers for contract work		**(1,561,334)**	14,607
Accounts receivable and other debit balances		**(2,589,795)**	(1,524,979)
Due from related parties		**(5,411,516)**	(818,270)
Inventory		**(25,132)**	21,989
Accounts payable and other credit balances		**225,939**	1,311,783
Cash (used in) generated from operations		**(5,964,590)**	894,773
Indemnity paid		**(73,614)**	(81,838)
Paid to KFAS		**(83,927)**	-
Paid to NLST		**(140,189)**	(90,188)
Paid to Board of Directors' remuneration		**(25,000)**	(25,000)
Net cash (used in) generated from operating activities		**(6,287,320)**	697,747
Cash flows from investing activities:			
Paid for purchase of land held for trading		**(13,743)**	(13,679)
Paid for purchase of investment available for sale		**(8,419)**	(6,013)
Paid for investment in unconsolidated subsidiaries		**(121,847)**	-
Paid for purchase of investment properties		**(519,892)**	(1,482,027)
Paid for purchase of fixed assets		**(428,040)**	(622,279)
Proceeds from sale of fixed assets		**29,662**	69,746
Proceeds from partial sale of an associate		**4,414,348**	-
Dividend income received from investment in associate		**984,912**	-
Dividend income received from Investments available for sale		**85,116**	30,564
Interest income received		**48,325**	15,483
Net cash generated from (used in) investing activities		**4,470,422**	(2,008,205)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTD.)
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	2012	2011
Cash flows from financing activities:			
Net movement in due to banks		**(1,188,526)**	94,283
Net movement in loans installments		**(305,120)**	(3,436,213)
Net movement in Murabaha contracts installments		**(2,123,142)**	5,566,247
Net movement in bonds		**16,237,447**	-
Dividend paid		**(2,479,851)**	(5,244)
Net movement in due to related parties		**(518,995)**	396,036
Finance charges paid		**(2,518,843)**	(1,397,764)
Net cash generated from financing activities		**7,102,970**	1,217,345
Net increase (decrease) in cash and cash equivalents		**5,286,072**	(93,113)
Cash and cash equivalents at beginning of the year		**586,592**	679,705
Cash and cash equivalents at end of the year	3	**5,872,664**	586,592

The accompanying notes (1) to (45) form an integral part of the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012

1. Nature and activities of the company

Al Argan International Real Estate Co. - K.S.C. (Closed), 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 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.

The main activities of the Parent Company are:

1. Owning, buying and selling real estates and lands and developing them in favour of the parent company inside and outside the 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. Owing, buying and selling real states companies' shares only for the benefit of the parent company inside and outside Kuwait.
3. Conducting all kinds of real estates studies and consulting in accordance with the terms required to perform such service.
4. Performing maintenance works 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 assure the safety of the buildings.
5. Organizing real estate exhibitions related to the Company's real estate projects according to the 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 (after 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 the State of Kuwait by its own or as an agent for other parties. The Company may have an interest or in any way associate itself with other institution 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 institution or have them affiliated to it.

According to the ordinary General Assembly meeting of the parent company shareholders held on May 15, 2012, the following were approved:-

a- Authorized the consolidated financial statements of the parent company for the year ended December 31, 2011.
b- Amended article No. (13) of the article of incorporation to be as follows:-

Before amendment:
"The parent company's Board of Directors consists of (5) members who are appointed by the shareholding authority or authorities which can delegate representatives according to the commercial companies law No. 15 of 1960, with a number suitable with its holding percentage in the parent company's shares and the remaining members will be elected through secret voting, (after obtaining the related authority approval)".

After amendment :
"The parent company's Board of Directors consists of (6) members who are appointed by the shareholding authority or authorities which can delegate representatives according to the commercial companies law No. 15 of 1960, with a number suitable with its holding percentage in the parent company's capital and the remaining members will be elected by the General Assembly through secret voting".

c- Add objective to article No. (5) of the article of association and article No. (4) of the article of incorporation to be as follows :-

Before amendment :
Performing civil, mechanical, electrical, sanitary, elevators, air conditioning, aluminum and carpentry contracting work for real estates owned by the Parent Company and by others.

After amendment :
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.

The Company registered the amendments in the commercial register on June 3, 2012.

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

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

The Parent Company has 57 employees as of December 31, 2012 (2011 - 62 employees).

The consolidated financial statements were authorized for issue by the Board of Directors on March 14, 2013. The accompanying consolidated financial statements are subject for 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 have been prepared in accordance with the accounting standards issued by the International Accounting Standards Board (IASB) and the requirements of the related Ministerial Decision No. 18 for the year 1990. Significant accounting policies are summarized as follows:

a) Basis of preparation:

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

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

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

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

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

Standards and Interpretations issued but not effective

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

IAS 1 Presentation of items of other comprehensive income

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

a) Items that will not be reclassified, subsequently to consolidated statement of income and
b) Items that may be reclassified to consolidated statement of income when specific conditions are met.

The amendments are effective for annual periods beginning on or after July 1, 2012.

IAS 16 Property, plant and equipment

The amendments to IAS 16 clarity that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventories, otherwise if they meet definition of inventories as per IAS 2.

The amendments are effective for annual periods beginning on or after January 1, 2013.

IAS 28 Investments in associates and joint ventures

As a consequence of the new IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in other entities IAS 28 Investments in Associates has been renamed IAS 28 "Investments in Associates and Joint Ventures" and describes the application of the equity method to investments in Joint Ventures in addition to associates.

The revised standard becomes effective for annual periods beginning on or after January 1, 2013.

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

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

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

IFRS 9 Financial Instruments

The standard, which will be effective for annual periods beginning on or after January 1, 2015, specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified entirely based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories

IFRS 10 Consolidated Financial Statements (issued in May 2011)

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

IFRS 11 Joint Arrangements (issued in May 2011)

The new Standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations or joint ventures:

- In a joint operation, parties have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to their interest in the joint operation

- In a joint venture, parties have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures (2011). Unlike IAS 31, the use of proportionate consolidation is not permitted.

- IFRS 11 is effective for annual periods beginning on or after 1 January 2013.

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

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

IFRS 13 Fair Value Measurement (issued in May 2011)

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

b) Principles of consolidation:

The consolidated financial statements include the financial statements of Al Argan International Real Estate Company - K.S.C. (Closed) and its subsidiaries as follows:

Name of Subsidiaries	Country of incorporation	Percentage of holding 2012	Percentage of holding 2011
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%
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%
5A. Health Plus Trading Co. - W.L.L.	Kuwait	**55%**	55%
6. Al Argan International Real Estate Limited Company	United Kingdom	**100%**	100%
7. Al Argan Landscaping Company - W.L.L.	Kuwait	**99.67%**	99.67%
8. Al Argan Gulf Real Estate Services - K.S.C. (Closed)	Kuwait	**50%**	50%
9. Al Argan Real Estate Project Management Company - K.S.C. (Closed)	Kuwait	**50%**	50%
10. Shams Al Fouz Real Estate Co. - W.L.L.	Bahrain	**99%**	99%

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

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 in treats and non - controlling interest 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 attributable to owners of the company. Losses are attributed to the non-controlling interest even if that results in a deficit balance. If the Group loses control over a subsidiary, it:

- 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.
- 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, 2012, the Group consolidated the financial statements of the subsidiary Al Argan International Real Estate Limited Company - United Kingdom (wholly owned) with a capital amounting to one sterling pound based on management accounts, since the subsidiary did not conduct any activities from the date of formation until the year ended December 31, 2012. Since the subsidiary suspended its activities after getting approval from the companies' house in the United Kingdom, the investment in that subsidiary was stated at KD 1.

c) Financial Instruments:

Financial assets and financial liabilities carried on the consolidated statement of financial position include cash and cash equivalents, 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) Cash equivalents:

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

c/2) Murabaha Investments:

Murabaha Investments are stated at cost which equivalent its fair value, these investments are recorded on accrual basis.

c/3) Accounts receivable:

Accounts receivable are 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 income within separate item. 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 income.

c/4) 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 the consolidated statement of income.

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

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

An investment (in whole or in part) is derecognized either when: the contractual rights to receive the cash flows from the investment have expired; or the Group has transferred its rights to receive cash flows from the investment and either:

(a) has transferred substantially all the risks and rewards of ownership of the investment, or
(b) has neither transferred nor retained substantially all the risks and rewards of the investment, but has transferred control of the investment. Where the Group has retained control, it shall continue to recognize the investment to the extent of its continuing involvement in the investment.

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

c/5) Borrowings:
Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

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

c/6) Murabaha contracts:
Murabaha contracts represent amounts payable on deferred settlement basis for assets purchased under Murabaha contracts. Murabaha contracts are stated at the gross amount of the payable, net of deferred expenses payable in the future. Murabaha contracts expenses are recognized when matured on a weighted time-proportion basis.

c/7) Accounts payable:
Accounts payables include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not , they are presented as non - current liabilities.

c/8) 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 income.

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 income. 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:
The 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 preparation and selling expenses.

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.

Gain or loss from revaluation of plants inventory is recognized in the consolidated statement of income during the period on which it incurred.

g) Investment in associates:

Associates are those enterprises in which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the associate. The consolidated financial statements include the Group's share of the results and assets and liabilities of associates under the equity method of accounting from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated Statement of Financial Position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized except to the extent that the Group has an obligation or has made payments on behalf of the associate.

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

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

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

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

h) Investment properties:

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

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

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

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

i) Right of utilization of land for development:

Right of utilization of land for development leased from others for the purpose of development is stated at amortized cost, amortization is computed on straight line basis over the right of utilization period ending on December 31, 2022.

j) Fixed assets:

The initial cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs, are normally charged to the consolidated statement of income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment. Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statement of income.

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

	Depreciation percentage
Al-Abdali Farm buildings	25%
Buildings of the Group	25%
Hotel's furniture and fixture	10%
Computer software	33.33%
Decorations	25%
Tools and equipments	10% - 25%
Vehicles and equipment	10% - 25%
Furniture and fixture	25%

The cost of building erected on leasehold lands leased from others are 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.

k) Impairment of assets:

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

l) Dividend distribution:
Dividend distribution to the parent company's shareholders is recognized as a liability in the group's financial statements in the period in which the dividends are approved by the parent company's shareholders.

m) Provision for indemnity:
Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employee contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the financial position date, and approximates the present value of the final obligation.

n) Capital:
Ordinary shares are classified as equity.

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

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

Where any Group's 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 equity holders.

p) 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.

- 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.

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

- 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.

- Revenue from projects shared with others is recognized after finishing 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.
- Interest income is recognized on a time-proportion basis using the effective interest method.
- Dividend income is recognized when the right to receive payment is established.
- Rental income is recognized, when earned, on a time apportionment basis.
- Gain on sale of investments in securities and investment funds 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 sale date.
- Other revenue and expenses are recognized on accrual basis.

q) Cost of projects:
Cost of projects consists of actual cost of materials, wages and other direct and indirect expenses.

r) 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 recognized in the consolidated statement of income in the period in which they are incurred.

s) 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 each of consolidated financial position date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

t) Business combinations:
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree that are present ownership interets and entitle their holders to a proportionate share of the assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date and the resulting gain / loss is included in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39: Financial Instruments: Recognition and Measurement. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

u) 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 periods 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 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 income statement 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 comprehensive income.

The assets and liabilities of the foreign subsidiaries 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 the consolidated statement of other comprehensive income. Such translation differences are recognized in the consolidated statement of income 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.

v) Contingencies:

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

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

w) 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.

x) 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) Land held for trading:

When the intention of the Group is to sell land in the ordinary course of business, the land are classified as land held for trading (IAS 2 "Inventory").

2) 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 properties (IAS 40 "Investment Properties").

(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 "available for sale". The Group follows the guidance of IAS 39 on classifying its investments.

(vi) Impairment of investments:

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

b. Estimates and assumptions

The key assumptions concerning the future and other key sources of estimating uncertainty at the end of the 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.

(iii) Revaluation of investment properties:

The Group carries its investment properties at fair value, with changes in fair value being recognized in the statement of income. The Group engaged independent valuation specialists to determine fair value as at 31 December 2012. For the investment property the valuers used a valuation techniques based on a discounted cash flow model and a comparable market data according to the nature of the property. The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate.

3. Cash and cash equivalents

	2012	2011
Cash on hand and at banks	**5,082,664**	586,592
Short term time deposits	**790,000**	-
	5,872,664	586,592

Short term deposit earns interest rate of 0.7% and is due within 30 days.

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

4. Murabaha investments

Murabaha investments earn annual return ranging between 1.037% and 2% per annum (2011 - ranging between 1.427% and 1.728% per annum).

Murabaha Investments amounting to KD 755,000 as of December 31, 2012 (2011 - KD 755,000) were mortgaged against facilities from one of the local banks (letters of credit, bank guarantees and Murabaha contracts) (Note 17 -a).

5. Due from (to) customers for contract work

	2012	2011
Contract costs incurred to date plus recognized profits	**7,433,990**	3,938,721
Progress billings	**(5,214,958)**	(3,281,023)
	2,219,032	657,698

Represented by:

	2012	2011
Gross amount due from customers for contract work	**2,313,383**	714,921
Gross amount due to customers for contract work	**(94,351)**	(57,223)
	2,219,032	657,698

6. Accounts receivable and other debit balances

	2012	2011
Trade receivable (a)	**3,565,872**	2,861,171
Provision for doubtful debts (b)	**(598,536)**	(593,936)
	2,967,336	2,267,235
Employees' receivable	**285,200**	181,511
Petty cash imprest	**25,606**	17,171
Prepaid expenses	**922,212**	191,090
Refundable deposits	**73,147**	72,254
Retentions receivable	**806,696**	435,449
Advance payments	**986,650**	415,182
Accrued revenue	**531,048**	436,077
	6,597,895	4,015,969

The fair value of accounts receivable and other debit balances approximate their carrying values as of December 31, 2012.

a) Trade receivables

Trade receivables that are less than 1 year past due are not considered impaired.

The individually impaired receivables mainly relate to customers, which are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

Trade receivables aging analysis are as follows:

	2012	2011
1 to 12 months	**2,294,094**	1,630,646
Over 1 year	**1,271,778**	1,230,525
	3,565,872	2,861,171

b) Provision for doubtful debts

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

	2012	2011
Balance at the beginning of the year	**593,936**	516,114
Charge for the year	**7,869**	107,185
Provision written off against receivable	**(3,269)**	(29,363)
Balance at the end of the year	**598,536**	593,936

The provision for doubtful debts are included in the consolidated statement of income within separate item.

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

7. Related party disclosures

In the normal course of business, the Group entered into various transactions with related parties (i.e. associates, unconsolidated subsidiaries and other related parties) concerning financing and other related services. Prices and terms of payment are approved by the Group's management. Significant related party transactions and balances are as follows:

Balances in consolidated statement of financial position:

	2012			
	Associates	**Unconsolidated subsidiaries**	**Other related parties**	**Total**
Due from related parties - current portion	**8,499,383**	**19,865**	**35,222**	**8,554,470**
Due from related parties - non-current portion	**10,811,962**	**-**	**-**	**10,811,962**
Due to related parties - non-current portion	**626,386**	**49,620**	**1,243,389**	**1,919,395**

	2011		
	Associates	Other related parties	Total
Due from related parties - current portion	6,928,750	44,701	6,973,451
Due from related parties - non-current portion	7,062,632	-	7,062,632
Due to related parties - non-current portion	946,345	1,497,171	2,443,516

Transactions in consolidated statement of income:

	2012	2011
Projects revenue	**676,292**	686,237
Rent revenue	**-**	45,754
Total revenues	**676,292**	731,991
Projects cost	**(630,962)**	(679,228)
	45,330	52,763

Compensation to key management personnel:

	2012	2011
Salaries and other benefits	**591,249**	781,854
Leave	**68,957**	52,250
Indemnity	**39,779**	65,185
	699,985	899,289

8. Land held for trading

	2012	2011
Balance at the beginning of the year	**7,953,978**	7,998,659
Additions	**13,743**	13,679
Foreign currency translation adjustments	**78,394**	(58,360)
Balance at end of the year	**8,046,115**	7,953,978

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 8,130,825 as of December 31, 2012 (2011 - KD 7,988,184).

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

9. Inventory

	2012	2011
Material in stores	**250,982**	224,107
Plants inventory	**38,651**	40,394
	289,633	264,501

10. Investment in associates

Investment in associates comprises the following:

Name of the associates	Country of incorporation	Ownership percentage % 2012	Ownership percentage % 2011	2012	2011
Saar Gate Real Estate Co. - W.L.L.	Bahrain	**20**	20	**1,162,991**	1,137,036
Al Argan Towell Investment Co. - W.L.L. (a)	Oman	**50**	50	**6,288,530**	5,658,834
Al Argan Bahrain Co. - W.L.L.	Bahrain	**50**	50	**43,698**	58,508
Al Argan Projects Co. - S.S.C. (b)	Saudi Arabia	**27.58**	48.34	**13,478,398**	18,669,690
Barka City Real Estate Co. - W.L.L.	Oman	**25**	25	**27,172**	27,172
Real Estate Finance Facilities Co. - K.S.C.C. - (c)	Kuwait	**10.29**	10.29	**3,034,600**	2,895,096
Saji Real Estate Co. - K.S.C.C. - (d)	Kuwait	**10**	10	**151,082**	172,147
Delmon Residence Co. - W.L.L. - (e)	Bahrain	**10**	10	**49,113**	5,498
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	**71,981**	60,475
				24,333,665	28,710,556

a) The parent Company's share from discontinued operations of its associate Al Argan Towell Investment Co. - W.L.L. amounted to KD 416,796 for the year ended December 31, 2012.

b) During the year ended December 31, 2012, the Group completed the transaction of selling 9,963,360 shares from its investment in the associate Al Argan Projects Co. - S.S.C. - Kingdom of Saudi Arabia (which represents 20.76% of the associate's capital) and all risks and rewards related to the sold shares were transferred to the buyer. The sale value amounted to KD 9,052,812 and the gain resulted from the sale transaction amounted to KD 2,068,406 which was recognized as a gain from partial sale of an associate in the consolidated statement of income for the year ended December 31, 2012.

The gain from partial sale of an associate was calculated as follows:

	Value
Total sale value of share in an associate	**9,052,812**
(Deduct) tax paid	**(498,732)**
Net sale value of share in an associate	**8,554,080**
Cost of disposal:	
Carrying value of sold shares as of January 1, 2012	**(6,370,712)**
Foreign currency translation adjustments	**(114,962)**
Total cost of disposal	**(6,485,674)**
Gain on partial sale of share in an associate	**2,068,406**

Accordingly, the group's percentage of holding in Al Argan Projects Co.- S.S.C. was decreased after the sale transaction to be 27.58%.

c) 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, due to the significant influence over the financial and operating policies of the associate.

d) The Parent Company recognize the 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, which indicates that the Parent Company has significant influence over the financial and operating policies of the associate.

e) 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 due to the significant influence of the Parent Company over the financial and operating policies of the associate.

The movement during the year is as follows:

	2012	2011
Balance at beginning of the year	**28,710,556**	21,479,304
Group's share of results from associates	**2,896,765**	3,935,395
Transferred from due from related parties - non-current portion	**-**	3,334,697
Disposals	**(6,370,712)**	-
Cash dividends received	**(984,912)**	-
Foreign currency translation adjustments	**49,318**	(41,314)
Group's share from change in other comprehensive income of associates	**32,650**	2,474
Balance at end of the year	**24,333,665**	28,710,556

The summarized financial information in respect of the Group's associates as of December 31, are as follows:

	Assets		Liabilities		Net assets		Group's share of net assets	
Name of the associate	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Saar Gate Real Estate Co. W.L.L.	**5,872,087**	6,001,459	**57,130**	316,279	**5,814,957**	5,685,180	**1,162,991**	1,137,036
Al-Argan Towell Investment Co. - W.L.L.	**48,052,047**	47,690,695	**35,474,987**	36,373,027	**12,577,060**	11,317,668	**6,288,530**	5,658,834
Al-Argan Bahrain Co. - W.L.L.	**412,431**	366,678	**325,035**	249,662	**87,396**	117,016	**43,698**	58,508
Al Argan Projects - S.S.C.	**105,030,444**	90,111,979	**56,165,570**	45,881,568	**48,864,874**	44,230,411	**13,478,398**	18,669,690
Barka City Real Estate Co. - W.L.L.	**5,901,558**	5,722,765	**5,792,870**	5,614,077	**108,688**	108,688	**27,172**	27,172
Real Estate Finance Facilities Co. - K.S.C.C.	**29,574,000**	28,229,951	**83,229**	94,907	**29,490,771**	28,135,044	**3,034,600**	2,895,096
Saji Real Estate Co. - K.S.C.C.	**14,509,329**	16,546,872	**12,998,513**	14,825,402	**1,510,816**	1,721,470	**151,082**	172,147
Delmon Residence Co. - W.L.L.	**10,086,083**	11,835,440	**9,594,947**	11,780,460	**491,136**	54,980	**49,113**	5,498
Al Argan Towell National Trading and Contracting Co. - W.L.L.	**104,400**	104,400	**-**	-	**104,400**	104,400	**26,100**	26,100
Surouh Alqurom Bahrain Company - W.L.L.	**30,187,456**	27,148,888	**29,934,713**	26,936,546	**252,743**	212,342	**71,981**	60,475
	249,729,835	233,759,127	**150,426,994**	142,071,928	**99,302,841**	91,687,199	**24,333,665**	28,710,556

	Revenues		Results		Group's share of results	
Name of the associate	**2012**	2011	**2012**	2011	**2012**	2011
Saar Gate Real Estate Co. - W.L.L.	**81,905**	-	**67,824**	(2,645)	**13,565**	(529)
Al-Argan Towell Investment Co. - W.L.L.	**1,863,234**	1,204,674	**1,142,623**	91,550	**571,312**	45,775
Al Argan Bahrain Co. - W.L.L.	**42,704**	51,999	**(27,703)**	1,526	**(13,851)**	763
Al Argan Projects Company - S.S.C.	**35,298,248**	49,954,272	**7,858,236**	13,828,463	**2,167,537**	3,814,305
Real Estate Finance Facilities Co. - K.S.C.C.	**1,720,261**	1,282,518	**1,328,511**	909,417	**136,704**	93,579
Saji Real Estate Co. - K.S.C.C.	**61,081**	6,052	**(210,657)**	(175,410)	**(21,066)**	(17,541)
Delmon Residence Company-W.L.L.	**3,276,054**	892	**433,502**	(3,290)	**43,350**	(329)
Surouh Alqurom Bahrain Company - W.L.L.	**-**	-	**(2,757)**	(2,205)	**(786)**	(628)
	42,343,487	52,500,407	**10,589,579**	14,647,406	**2,896,765**	3,935,395

11. Investment in unconsolidated subsidiaries

During the year ended December 31, 2012, the Group established the following new subsidiaries:

Name of subsidaries	Country of incorporation	Ownership Percentage %	2012	2011
a- Support Real Estate Co. - W.L.L.	Kuwait	99	**30,000**	-
b- Masaken National Co. - W.L.L.	Saudi Arabia	95	**37,090**	-
c- Jenan United Real Estate Co. - W.L.L.	Kuwait	99	**40,000**	-
d- Telal Alqurom Real Estate Co. O.S.C.	Oman	99	**14,757**	-
			121,847	-

The Group did not consolidate the above mentioned subsidiaries, since such subsidiaries were newly established and the first financial statements will be issued for the year ending December 31, 2013, and hence the investments were stated at cost.

12. Investments available for sale

	2012	2011
Investment in real estate and investment portfolios	**214,318**	231,069
Investment in real estate and investment funds	**428,961**	493,354
Unquoted equity securities	**48,000**	48,000
	691,279	772,423

Investments available for sale include investments reclassified from investments at fair value through income statement during the year ended December 31, 2008, and its fair value as of December 31, 2012 amounted to KD 643,279 (December 31, 2011 - KD 724,423). Cumulative changes in fair value related to these investments accounted in the consolidated statement of comprehensive income for the year ended December 31, 2012 amounted to KD 26,775 (loss) (2011 - KD 95,131 - gain).

The movement during the year is as follows:

	2012	2011
Balance at beginning of the year	**772,423**	805,557
Additions	**8,419**	6,013
Cumulative changes in fair value	**(26,775)**	95,131
Impairment loss (Note 32)	**(62,788)**	(134,278)
Balance at end of the year	**691,279**	772,423

Investments available for sale are denominated in the following currencies:

Currency	2012	2011
Kuwaiti Dinar	**48,000**	48,000
US Dollar	**474,372**	502,835
Euro	**168,907**	221,588
	691,279	772,423

13. Investment properties

Investment properties represent in the following:

	2012	2011
Investment properties stated at fair value (A)	**55,481,742**	54,674,344
Investment properties under construction stated at cost (B)	**205,762**	-
	55,687,504	54,674,344

A. Investment properties stated at fair value

The movement during the year of the investment properties stated at fair value are as follows:

	Buildings erected on leasehold lands	Buildings erected on freehold lands	Free hold land	Total
Balance as of December 31, 2010	38,600,000	531,953	2,023,699	41,155,652
Additions	281,872	-	-	281,872
Transferred from investment properties under development stated at fair value (B)	11,200,155	-	-	11,200,155
Changes in fair value	2,095,973	12,344	(71,652)	2,036,665
Balance as of December 31, 2011	52,178,000	544,297	1,952,047	54,674,344
Additions	248,256	-	65,874	314,130
Changes in fair value	523,744	(80,088)	49,612	493,268
Balance as of December 31, 2012	**52,950,000**	**464,209**	**2,067,533**	**55,481,742**

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

Investment properties are erected on leased land according to lease contracts ranging between 20 and 22 years.

Free hold land amounted to KD 2,067,533 as of December 31, 2012 (2011 - KD 1,952,047) 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 erected on leasehold lands amounting to KD 45,250,000 have been pledged against loan and Murabaha contracts granted from local bank (Note 16-a, 17-b).

- Buildings erected on leasehold lands and freehold land amounted to KD 700,000 and KD 2,067,533 respectively have been pledged against Murabaha contracts granted from local financial institution (Note 17 - a).

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 erected on leasehold lands
Balance as of December 31, 2010	10,000,000
Additions	1,200,155
Transferred from investment properties under development stated at fair value (A)	(11,200,155)
Balance as of December 31, 2011	-
Additions	205,762
Balance as of December 31, 2012	**205,762**

14. Fixed assets

	Building erected on right of utilization	Al-Abdaly farm building erected on leasehold land from Government	Building of the group	Hotel's furniture and fixture	Computer software	Decorations	Tools and equipments	Vehicles and equipment	Furniture and fixture	Total
Cost:										
As of December 31, 2011	518,918	107,709	114,184	3,994,029	263,083	287,954	1,513,895	441,077	308,090	7,548,939
Additions	-	-	-	111,158	2,233	32,447	136,619	136,203	9,380	428,040
Disposal	-	-	-	(1,800)	-	-	(95,558)	(94,922)	(16,571)	(208,851)
As of December 31, 2012	**518,918**	**107,709**	**114,184**	**4,103,387**	**265,316**	**320,401**	**1,554,956**	**482,358**	**300,899**	**7,768,128**
Accumulated depreciation:										
As of December 31, 2011	186,166	107,708	108,845	1,902,519	208,361	113,492	894,907	291,427	265,058	4,078,483
Charge for the year	31,172	-	2,843	339,167	24,875	1,786	149,370	60,375	31,591	641,179
Relating to disposal	-	-	-	(809)	-	-	(95,523)	(93,645)	(16,556)	(206,533)
As of December 31, 2012	**217,338**	**107,708**	**111,688**	**2,240,877**	**233,236**	**115,278**	**948,754**	**258,157**	**280,093**	**4,513,129**
Net book value:										
As of December 31, 2012	**301,580**	**1**	**2,496**	**1,862,510**	**32,080**	**205,123**	**606,202**	**224,201**	**20,806**	**3,254,999**
As of December 31, 2011	332,752	1	5,339	2,091,510	54,722	174,462	618,988	149,650	43,032	3,470,456

Deprecation charge for the year is allocated as follows:

	2012	2011
Projects costs	**163,635**	85,404
Rent costs	**207**	5,503
Resorts cost	**342,849**	334,239
Others	**134,488**	238,505
	641,179	663,651

15. Due to banks

As of October 4, 2012, the Group settled the bank facilities in full.

16. Short and long term loans installments

		2012	2011
Current:			
a.	Secured bank loan carrying an interest rate of 4% per annum over the Central Bank of Kuwait discount rate.	**7,200,000**	3,500,000
b.	Secured loan from local financial institution carrying an interest rate of 4% per annum over the Central Bank of Kuwait discount rate.	**-**	763,787
c.	Unsecured loan from local financial institution carrying an interest rate of 4% per annum over the Central Bank of Kuwait discount rate.	**152,166**	-
d.	Secured loan from local financial institution carrying an interest rate of 3.5% per annum over the Central Bank of Kuwait discount rate.	**306,501**	-
		7,658,667	4,263,787
Non-current:			
a.	Secured bank loan carrying an interest rate of 4% per annum over central bank of Kuwait discount rate.	**9,888,000**	13,588,000
		9,888,000	13,588,000
		17,546,667	17,851,787

a) This item represents loan granted to the Parent Company from one of the local banks secured by a first class collateral on the buildings erected on the real estate located in Al Bedaa and represented in plan No. 30050, 27617 (Note 13) and is payable in semi-annual installments starting from June 1, 2011 and ending on June 1, 2016.

b) This item represents loan granted to the Parent Company from one of the local financial institutions and is payable in installments ended August 31, 2012 against mortgage of the following assets:
- 1,682,563 treasury shares.
- 14,109,235 share of the company's shares in Real Estate Finance Facilities Co. - K.S.C.C. - associate company.

During the year ended December 31, 2012 the Group settled the full loan amount and released the mortgaged shares.

c) This item represents unsecured loan granted to the Parent Company from one of the local financial institutions and is payable in installments and in the subsequent period the loan was settled in full on February 28, 2013.

d) This item represents secured loan granted to a subsidiary Company from one of the local financial institutions secured by the corporate guarantee of the Parent Company, letter of assignment on the revenue of certain projects. The loan is payable in installments and the last installment is due on September 30, 2013.

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

17. Short and long term Murabaha contracts installments

	2012	2011
Current:		
Short term Murabaha contracts installments	**6,745,116**	17,244,576
Less: Deferred finance cost	**(606,095)**	(369,913)
Net short term Murabaha contracts installments	**6,139,021**	16,874,663
Non-current:		
Long term Murabaha contracts installments	**9,966,880**	105,928
Deduct: Deferred finance costs	**(834,188)**	(10,299)
Net long term Murabaha contracts installments	**9,132,692**	95,629
	15,271,713	16,970,292

a) The Group was granted Murabaha contracts in the amount of KD 11,980,777 from one of the local banks and is payable in installments and the last installment is due on October 18, 2015 against mortgage of certain group assets, which are as follows:

- Murabaha Investment amounted to KD 755,000 as of December 31, 2012 (Note 4).
- Land held for trading amounted to KD 8,046,115 as of December 31, 2012 (Note 8).
- Building erected on leased land in investment properties category amounted to KD 700,000 as of December 31, 2012 (Note 13).
- Freehold land in investment properties category amounted to KD 2,067,533 as of December 31, 2012 (Note 13).

b) The Group was granted Murabaha contracts amounted to KD 3,270,547 from one of the local banks secured by a first class collateral on the building erected on the real estate located in Al Bedaa and represented in plan No. 30050, 27617 (Note 13) and is payable in one installment due on March 31, 2013.

18. Accounts payable and other credit balances

	2012	2011
Trade payable	**1,168,963**	1,466,170
Staff payable	**58,210**	121,677
Accrued leave	**522,899**	410,245
Rent deposits for others	**402,582**	355,285
Subcontractors' retentions	**307,470**	448,238
Revenues and payments received in advance	**1,617,345**	1,227,647
Accrued expenses	**1,055,135**	557,380
KFAS payable	**-**	83,927
NLST payable	**184,333**	205,532
Zakat payable	**113,224**	113,224
Board of Directors' remuneration payable	**45,000**	40,000
	5,475,161	5,029,325

- Trade payable are non-interest bearing and are settled within 3 months.
- The fair value of accounts payable and other credit balances are approximate their carrying value as of December 31, 2012.

19. Dividend payable

The parent company's General Assembly meeting held on May 15, 2012 approved the proposal of the board of directors for distributing cash dividends of 10% of the par value of the share (10 fils per share) for the year ended December 31, 2011.

The parent company's General Assembly meeting held on May 26, 2011 approved the proposal of the Board of Directors for not distributing cash dividends or bonus shares for the year ended December 31, 2010.

20. Long term bonds

	2012
Bonds issued at fixed rate - (a)	**13,200,000**
Bonds issued at floating rate - (b)	**3,300,000**
	16,500,000
(Deduct) unamortized issue cost	**(262,553)**
	16,237,447

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 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. On May 17, 2012 the group repurchased 2,000 bonds in the amount of KD 10,000,000 at par value of KD 5,000 per bond.

b- Issued 660 bonds of KD 5,000 each in the 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 semi annual basis.

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. Advance payment on partial sale of an associate

The comparative year item represents the amount collected as an advance payment against partial sale of 20.76% of shares owned in the associate Al Argan Projects Co. - S.S.C. During the period ended December 31, 2012 the sale transaction was completed and all risks and rewards related to the sold shares were transferred to the buyer (Note 10-b).

22. 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 (2011 - 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 premuim are not available for distribution except in cases stipulated by law.

24. Statutory reserve

As required by the Commercial 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 KFAS, National Labor Support Tax, contribution to 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.

Statutory reserve was calculated as follows:

	2012	2011
Profit for the year before contribution to Kuwait Foundation for Advancement of Sciences, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration	**4,575,287**	5,425,556
Non-controlling interest	**(47,924)**	(91,032)
Profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for Advancement of Sciences, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration	**4,527,363**	5,334,524
Percentage of statutory reserve	**10%**	10%
Transferred to statutory reserve as of December 31	**452,736**	533,452

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 14, 2013, they agreed to transfer 10% from net profit attributable to Parent Company's shareholders before contribution to KFAS, National Labor Support Tax, contribution to 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.

Voluntary reserve was calculated as follows:

	2012	2011
Profit for the year before contribution to Kuwait Foundation for Advancement of Sciences, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration	**4,575,287**	5,425,556
Non-controlling interest	**(47,924)**	(91,032)
Profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for Advancement of Sciences, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration	**4,527,363**	5,334,524
Percentage of voluntary reserve	**10%**	10%
Transfer to voluntary reserve as of December 31	**452,736**	533,452

27. Treasury shares

	2012	2011
Number of shares	**8,730,000**	8,730,000
Percentage to paid up shares	**3.2944%**	3.2944%
Market value	**1,501,560**	1,099,980
Cost	**3,420,920**	3,420,920

28. Net gain (loss) from projects

	2012	2011
Projects revenue	**9,039,622**	5,443,661
Project costs	**(8,562,067)**	(5,531,427)
	477,555	(87,766)

29. Net gain from rent

	2012	2011
Rental revenue	**2,473,375**	2,207,499
Rental costs	**(353,663)**	(253,956)
	2,119,712	1,953,543

30. Net gain from resorts

	2012	2011
Resorts revenue	**7,444,313**	6,856,730
Resorts cost	**(4,136,186)**	(3,993,628)
	3,308,127	2,863,102

31. General and administrative expenses

	2012	2011
Salaries, wages and other benefits	**2,106,680**	1,889,732
Others	**1,374,612**	1,455,369
	3,481,292	3,345,101

32. Net investment income (loss)

	2012	2011
Dividend income from investments available for sale	**85,116**	30,564
Impairment loss of investment available for sale (Note 12)	**(62,788)**	(134,278)
	22,328	(103,714)

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, 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 has been calculated for the year ended December 31, 2012 since the KFAS share calculated in the company's subsidiaries and associates subject to KFAS resolution exceeds the KFAS share calculated for the accompanying consolidated financial statements.

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.

NLST is calculated as follows:

	2012	2011
Profit for the year before contribution to KFAS, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration	**4,575,287**	5,425,556
Non-controlling interest	**(47,924)**	(91,032)
Profit for the year attributable to shareholders of the Parent Company before contribution to Kuwait Foundation for Advancement of Sciences, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration	**4,527,363**	5,334,524
Add:		
Provision for indemnity	**301,264**	277,050
Provision for doubtful debts	**7,869**	107,185
Less:		
Paid for indemnity	**(73,614)**	(81,838)
Used from provision for doubtful debts	**(3,269)**	(29,363)
	4,759,613	5,607,558
(NLST) percentage	**2.5%**	2.5%
National Labor Support Tax	**118,990**	140,189
Less:		
Return from tax paid in excess by the Parent Company for the year ended December 31, 2007	**-**	(130,566)
	118,990	9,623

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, 2012 and December 31, 2011 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 remuneration proposed by the Board of Directors in their meeting held on March 14, 2013 which was recorded as a profit distribution is subject to the approval of the parent company's General Assembly meeting.

The parent company's General Assembly meeting held on May 15, 2012 approved the proposal of the Board of Directors for distributing an amount of KD 25,000 as a Board of Directors' remuneration for the year ended December 31, 2011.

37. Earnings per share attributable to parent company 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:

	2012	2011
Net profit for the year attributable to the parent company's shareholders	**4,378,373**	5,299,901
Number of shares outstanding:		
Weighted average number of issue shares	**265,000,000**	265,000,000
Less: Weighted average number of treasury shares	**(8,730,000)**	(8,730,000)
Weighted average number of shares outstanding	**256,270,000**	256,270,000
Earnings per share attributable to the parent company's shareholders (Fils)	**17.09**	20.68

38. Proposed cash dividends

The Board of Directors' meeting held on March 14, 2013 recommend a cash dividend of 7% (7 fils per share) for the year ended December 31, 2012. This recommendation is subject to the approval of the Ordinary General Assembly of the Parent Company shareholders.

39. Employees' cost

Employees' salaries and other benefits amounted to KD 6,218,174 for the year ended December 31, 2012 (2011 - KD 5,525,094).

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 activity as follows:

	Real estate investment		Contracting		Hotels and resorts		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Revenue	**6,487,541**	5,446,185	**7,843,868**	4,258,429	**10,551,009**	15,829,806	**24,882,418**	25,534,420
Expenses	**(7,391,624)**	(9,891,196)	**(7,465,487)**	(4,732,207)	**(5,599,010)**	(5,520,084)	**(20,456,121)**	(20,143,487)
Net (loss) profit for the year	**(904,083)**	(4,445,011)	**378,381**	(473,778)	**4,951,999**	10,309,722	**4,426,297**	5,390,933
Total assets	**69,738,231**	64,462,618	**6,937,518**	3,430,525	**50,830,054**	48,249,948	**127,505,803**	116,143,091
Total liabilities	**(50,416,553)**	(43,056,231)	**(5,170,901)**	(3,525,817)	**(2,077,653)**	(1,908,227)	**(57,665,107)**	(48,490,275)
	19,321,678	21,406,387	**1,766,617**	(95,292)	**48,752,401**	46,341,721	**69,840,696**	67,652,816

B. Geographical segments:

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

	Inside Kuwait		Outside Kuwait		Total	
	2012	2011	**2012**	2011	**2012**	2011
Revenue	**19,883,519**	21,625,078	**4,998,899**	3,909,342	**24,882,418**	25,534,420
Expenses	**(20,280,214)**	(19,927,085)	**(175,907)**	(216,402)	**(20,456,121)**	(20,143,487)
Net (loss) profit for the year	**(396,695)**	1,697,993	**4,822,992**	3,692,940	**4,426,297**	5,390,933
Total assets	**74,481,761**	65,315,220	**53,024,042**	50,827,871	**127,505,803**	116,143,091
Total liabilities	**(56,833,850)**	(41,052,774)	**(831,257)**	(7,437,501)	**(57,665,107)**	(48,490,275)
	17,647,911	24,262,446	**52,192,785**	43,390,370	**69,840,696**	67,652,816

Revenue and expenses analysis are as follows:

	2012			2011		
	Revenue	**Expense**	**Net profit for the year**	Revenue	Expense	Net profit for the year
Net gains (loss) from projects	**9,039,622**	**(8,562,067)**	**477,555**	5,443,661	(5,531,427)	(87,766)
Net gains from rent	**2,473,375**	**(353,663)**	**2,119,712**	2,207,499	(253,956)	1,953,543
Net gains from resorts	**7,444,313**	**(4,136,186)**	**3,308,127**	6,856,730	(3,993,628)	2,863,102
Group's share of results from associates	**2,932,468**	**(35,703)**	**2,896,765**	3,954,422	(19,027)	3,935,395
Gain from partial sale of an associate	**2,068,406**	**-**	**2,068,406**	-	-	-
Unrealized gain from change in fair value of investment properties	**749,445**	**(256,177)**	**493,268**	6,868,624	(4,831,959)	2,036,665
General and administrative expenses	**-**	**(3,481,292)**	**(3,481,292)**	-	(3,345,101)	(3,345,101)
Depreciations and amortization	**-**	**(147,369)**	**(147,369)**	-	(251,167)	(251,167)
Net investment gains (loss)	**85,116**	**(62,788)**	**22,328**	30,564	(134,278)	(103,714)
Interest income	**48,325**	**-**	**48,325**	15,483	-	15,483
Finance charges	**-**	**(3,263,429)**	**(3,263,429)**	-	(1,447,260)	(1,447,260)
Provision for doubtful debts	**-**	**(7,869)**	**(7,869)**	-	(107,185)	(107,185)
Gain on sale of fixed assets	**27,635**	**(291)**	**27,344**	22,414	(73)	22,341
Foreign exchange gain (loss)	**12,711**	**(297)**	**12,414**	727	(63,237)	(62,510)
Other revenues	**1,002**	**-**	**1,002**	3,730	-	3,730
National Labor Support Tax and board of directors' remuneration	**-**	**(148,990)**	**(148,990)**	130,566	(165,189)	(34,623)
Net profit for the year	**24,882,418**	**(20,456,121)**	**4,426,297**	25,534,420	(20,143,487)	5,390,933

41. Financial Risk Management

In the normal course of business, the group uses primary financial instruments such as cash and cash equivalents, 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 / (Decrease) in interest rate	**2012**	**Effect on consolidated statement of income**
Total short term liabilities to financial institutions	**± 50 basis points**	**7,658,667**	**±38,293**
Total long term liabilities to financial institutions	**± 50 basis points**	**9,888,000**	**±49,440**
Long term bonds	**± 50 basis points**	**3,300,000**	**±16,500**

	Increase / (Decrease) in interest rate	2011	Effect on consolidated statement of income
Total short term liabilities to financial institutions	± 50 basis points	5,452,313	± 27,262
Total long term liabilities to financial institutions	± 50 basis points	13,588,000	± 67,940

The above table is based on the assumptions relating to the outstanding bank overdraft, loans and bond balances on December 31, 2012 and December 31, 2011 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 and cash equivalents, Murabaha investments, accounts receivable and due from related parties. The Group's cash and cash equivalents and Murabaha investments are placed with high credit rating financial institutions. The bank accounts of the Group is 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 and cash equivalents, Murabaha investments, receivables and due from related parties.

c) Foreign currency risk

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

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

	2012		
	Increase / (Decrease) against KD	**Effect on consolidated statement of income**	**Effect on consolidated statement of comprehensive income**
Bahraini Dinar	**± 5%**	**-**	**± 793,103**
Omani Riyal	**± 5%**	**± 108,792**	**± 930,712**
Saudi Riyal	**± 5%**	**± 1,970**	**± 676,055**
US Dollar	**± 5%**	**± 78,954**	**+ 23,719**
Egyptian Pounds	**± 5%**	**-**	**+ 1,263**
Euro	**± 5%**	**- 8,445**	**+ 8,445**
Sterling Pound	**± 5%**	**-**	**± 22**
UAE	**± 5%**	**± 103**	**-**

	2011		
	Increase / (Decrease) against KD	Effect on consolidated statement of income	Effect on consolidated statement of comprehensive income
Bahraini Dinar	± 5%	-	± 700,201
Omani Riyal	± 5%	± 104,095	± 710,197
Saudi Riyal	± 5%	± 103,543	± 922,524
US Dollar	± 5%	± 22,563	± 25,142
Egyptian Pounds	± 5%	-	± 626
Euro	± 5%	-11,079	+ 11,079
Sterling Pound	± 5%	-	± 21

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 other investments that are readily realizable.

Maturity Table for financial liabilities

	2012		
	3-12 months	**1-3 years**	**Total**
Due to customers for contract work	**94,351**	**-**	**94,351**
Accounts payable and other credit balances	**5,475,161**	**-**	**5,475,161**
Dividend payable	**119,347**	**-**	**119,347**
Total liabilities to financial institutions	**13,797,688**	**19,020,692**	**32,818,380**
Bonds	**-**	**16,237,447**	**16,237,447**
Due to related parties	**-**	**1,919,395**	**1,919,395**
Total	**19,486,547**	**37,177,534**	**56,664,081**

	2011		
	3-12 months	1-3 years	Total
Due to customers contract work	57,223	-	57,223
Accounts payable and other credit balances	5,029,325	-	5,029,325
Dividend payable	36,498	-	36,498
Total liabilities to financial institutions	22,326,976	13,683,629	36,010,605
Due to related parties	-	2,443,516	2,443,516
Total	27,450,022	16,127,145	43,577,167

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' resulted from investment in real estate and 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:

	2012			2011		
	Change in equity price	**Effect on consolidated statement of income**	**Effect on consolidated statement of comprehensive income**	Change in equity price	Effect on consolidated statement of income	Effect on consolidated statement of comprehensive income
Investment in investment and real estate portfolios	**± 5%**	**-3,379**	**±10,716**	± 5%	- 4,216	±11,553
Investment in investment and real estate funds	**± 5%**	**-5,067**	**±21,448**	± 5%	- 6,863	±24,668

f) Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from current bid prices, discounted cash flow models and other models as appropriate. At December 31, the fair values of financial instruments approximate their carrying amounts.

The Group adapted the IFRS 7 for financial instruments that are measured in the statement of financial position at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level3).

The following table presents the group's assets and liabilities that are measured at fair value at December 31:

2012	
	Level 2
Investments available for sale	**643,279**

2011	
	Level 2
Investments available for sale	724,423

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

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of reporting period.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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.

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 and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

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

	2012	2011
Total short term liabilities to financial institutions	**13,797,688**	22,326,976
Total long term liabilities to financial institutions	**19,020,692**	13,683,629
Long term bonds	**16,237,447**	-
Less: cash and cash equivalents	**(5,872,664)**	(586,592)
Net debt	**43,183,163**	35,424,013
Total equity	**69,840,696**	67,652,816
Total capital resources	**113,023,859**	103,076,829
Gearing ratio	**0.62**	0.52

43. Contingent liabilities

The Group is contingently liable against the following:

	2012	2011
Letters of credit	**830,959**	1,116,956
Letters of guarantees	**5,988,776**	5,487,778
	6,819,735	6,604,734

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

	2012	2011
Letters of guarantees	**11,736**	9,931

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

	2012	2011
Right of utilization of land	**1,125,332**	1,202,591

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 statement as of December 31, 2012 and based on the available information these cases do not have a material impact on the accompanying consolidated statement of financial position.

45. Comparative figures

Certain prior year figures have been reclassified to conform to the current year presentation.

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