MUNSHAAT REAL ESTATE PROJECTS CO. K.S.C. (CLOSED)

منشآت

Innovation Approach
& Investment Excellence

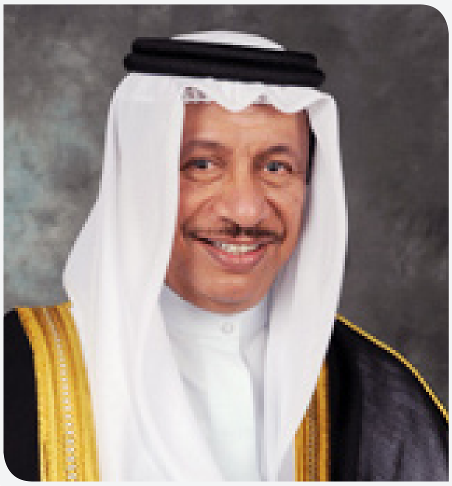
منشآت

Amir of the Sate of Kuwait

H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah

Crown Prince of the sate of kuwait

H.H Sheikh Nawaf Al-Ahmed Al-Sabah



Prime Minister of the sate of kuwait

H.H Sheikh Jaber Al-Mubark

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منشآت

Corporate Profile

Corporate Profile

When proficiency integrates know-How, Munshaat will always be there…
When high professionalism becomes the output of Core-competences,
Munshaat is certain to be the key to Distinct Real Estate Investment.

Incorporation

Munshaat Real Estate Projects Co. (K.S.C.C.) was established on the 8th of April 2003, with a current paid up capital of KD 32.2 Million, divided into 322 Million shares, by its main founders AREF Investment Group and the International Leasing and Investment Company (ILIC).

Company Vision

The vision of the company is to emerge as a leading Shari’a compliant Real Estate Development & Investment Company in the State of Kuwait and wider Islamic World. Believing that integration is the right path to remarkable achievement, the company provides unique investment solutions.

Core Business

The activities of Munshaat mainly focus on the local and international Real Estate industry through the professional and specialized manner targeting lucrative and non-traditional markets and employing the best investment tools which comply with the Islamic essential, in addition contributing in the investment projects through B.O.T. basis.

Purposes

- To own, sell, buy, and develop real estate properties and lands for its own interest inside the State of Kuwait and overseas. Third party property management in non-contradiction with the applicable laws prohibiting the trading in private housing plots as set forth by such laws.
- To own and trade in the Real Estate stock market, for its own interest only inside and outside the State of Kuwait.
- To prepare studies and provide Real Estate consultancy services of all types, provided that the real estate researchers and consultants should meet the required conditions.
- To own, manage, rent, and lease hotels, health clubs, and tourist facilities.
- To provide the maintenance service for company-owned building and properties: including civil, mechanical, electrical, elevators, and air conditioning services in a manner that ensure the safety and integrity of such buildings and properties.
- To manage, operate, invest, rent and lease hotels, health, clubs, motels, accommodation facilities, parks, exhibition halls, restaurants, cafeterias, residential complexes, tourist, and health resorts, recreational and sports projects, and shops of all classes and levels including all basic and supplementary services together with all annexed utilities and other necessary services.
- To organize the Real Estate property exhibitions related to its real estate projects according to the rules and regulations applicable by the Ministry.
- To organize the Real Estate property auctions according to the rules and regulations applicable by the Ministry.
- To own and manage malls and residential complexes.
- To establish and manage real estate investment funds subject to the approval of the Central Bank of Kuwait.
- To invest its excess funds in financial and real estate portfolios, to be managed by specialized and experiences companies.

منشآت

Board of Director

Jasem Mohammad Bader Al-Duwaikh

Chairman

Feras Fahad Al-Bahar
Vice Chairman

Hamad M. Al-Atiqi
Board Member

Syed Azhar Hussain
Board Member

Yousef Sulaiman Al-Thwaikh
Board Member

منشآت

Chairman Message

In the Name of Allah, Most Gracious, Most Merciful

Praise be to Allah, and prayers and blessings to be upon Allah's prophet, his family, companions, and followers to the Day of Judgment.

Dear Shareholders,

The company is still suffering indirectly from the impacts of global financial crisis that swept the word from the middle of 2008, known as " The Global Liquidity Crisis" . Perhaps the main reason why our company has been affected by that crisis is its mega real estate projects making exits from such projects whether in whole or in part a difficult matter during the current phase despite the considerable efforts which have been exerted by the company's management to achieve such goal.
As you know that the concentration of the company's investments and real estate projects in both Mecca and Medina in Saudi Arabia has significantly alleviated the effects of the financial crisis on our company since the real estate sector in Saudi Arabia could overcome the range of the crisis even partially. Therefore the company's investments could nearly maintain its prices according to the evaluation prepared by a global specialized company.

Jasem Mohammad Bader Al-Duwaikh
Chairman

Jasem Mohammad Bader Al-Duwaikh
Chairman

NOTE: Old Word

Chairman Message

Dear Shareholder,

The current administration has initiated a stage of restructuring the company's debts and liabilities in a manner that allows the company to overcome the current situation through preparing specialized studies including a statement of all the company's rights and liabilities as well as cash flows over the coming years to reach to a debts restructuring plan acceptable by al creditors so that the company could continue its under progress projects and could repay all its commitments within appropriate terms allowing the shareholders to reap the benefits of the existence projects as soon as possible.

On the other hand, the company's new administration has initiated a process of reevaluation to the results of the works of the existing projects, especially Zamzam Tower in Mecca, its financial statements and attained revenues over the previous years in addition to the preparation for the inauguration of Dar Al Qibla Project in Medina. Also a number of international companies specialized in hotel studies have been assigned to carry out comprehensive evaluation to Zamzam Tower and Dar Al Qibla projects, as well as providing significant capabilities to maximize the company's revenues from these two projects.

Dear Shareholders,

The Company's financial statements for the fiscal year and 31/12/2010 have showed the following results:

1. The company incurred losses of (KD. 19,224,231) or (60) Fils per share.
2. Total current assets reached KD. 25,423,213.
3. Total assets reached KD. 210,71,596.
4. Total current liabilities reached KD. 134,967,347.
5. Total liabilities reached KD. 169,847,926.
6. Total equity reached KD. 39,510,079.

Dear Shareholders,

Finally, on this occasion, on behalf of me, the Board of Directors, Executive Administration and all the company's departments, sections and staff extended grateful thanks to our esteemed shareholders for their constant support to the company, asking the Lord Almighty and Exalted to help us and support our endeavors.

Peace, mercy and blessings of God be upon you
Allah is the best Gardian

Jasem Mohammad Bader Al-Duwaikh
Chairman

Company Departments

Engineering Department

The Department undertakes the execution and follow-up of the Company's construction works, using all its technical , control and administrative capabilities. Engineering Department expresses opinion, undertakes periodic supervision and continuous follow-up with respect to such projects, in addition to ensuring its compliance with the agreed engineering specifications. It is also prepares the reports of financial needs, estimates financial claims, and ensures its compliance with the contracts' articles. The Department maintains a technical database for all technical documents related to the projects' parties.

Operations Department

Operations Department plays a very important and vital role in the process of following up and monitoring the preparation of the Company's projects in order to achieve its specified investment goals. The Department uses all scientific and technical means in the execution and follow-up operations, in cooperation with the Company's departments. The operations management department plays a vital role starting from the project's initial studies, and continues with its control role during the project's execution phases, to the operation after the project's completion. Furthermore, it plays an important role in managing and monitoring the product of Sukuk Al-Intifa , which is the backbone of the Company's projects.

IT Department

Munshaat Real Estate Projects Co. pays highest attention to its IT Department; whose role is represented in the protection, development and coping with rapid changes in this field. Information Technology Department prepares and maintains the technical infrastructure of the Company's projects. It also has a vital role in the preparation and maintenance process of the security and protection systems of residential units of the Company's projects.

HR Department

The Company never disagreed the role of human element from which all distinction and creative abilities emerge. Therefore, this Department plays an essential role in soliciting the most qualified individuals, work to ensure their professional stability, and promote human cadres through a set of distinguished business policies and regulations. Moreover, it applies a continuously competitive wage structure, undertakes accurate supervision over the preparation process of salaries and wages in a way that ensures the right of personnel and establishes a well-organized and smooth work pattern. The Company never spares any effort to offer its personnel training or education courses through to develop their abilities. Also the Administrative Affairs plays an effective role in fulfilling all the personnel's and Company's needs and requirements so as to render the Company an active and dynamic workshop facing no obstacles of any kind.

Legal Department

The role of the Legal Department is following up the external lawyers, inside and outside the Company, be preparing and reviewing all contracts and agreements related to the transacdtions concluded by the Company with local, regional and international parties. In addition, it conducts the required studies requested by the Board of Directors in relation to the company's legal standing as well as coordinates with the company's shari'a advisor for verifying the compliance of contracts and agreements with the principles of the Islamic Shari'a sends receives legal-related correspondences for parties involed with the company and follows up on all required legal procedures for companies' incorporation.

Financial Department

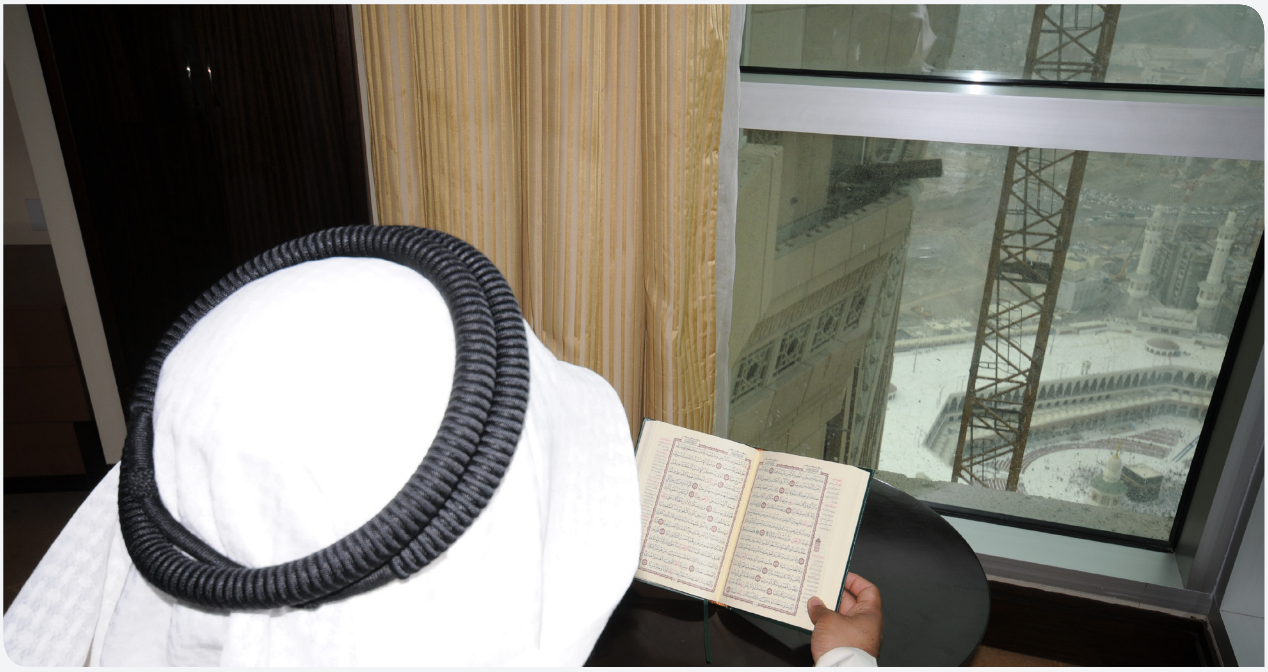
Prepare financial and regulatory reports required by laws, regulations, and boards of directors. And also, develop and analyze information to assess the current and future financial status of the firm.
Oversee the flow of cash and financial instruments, and coordinate the approval and rejection of, lines of credit and commercial laws.
In addition, analyze and classify risks and investments to determine their potential impacts on companies.
Evaluate financial reporting systems, and investment activities, and make recommendations to develop the procedures , operating systems, budgets, and other financial department plan, direct, the activities of financial departments' employees in subsidiaries, and coordinate with other departments.

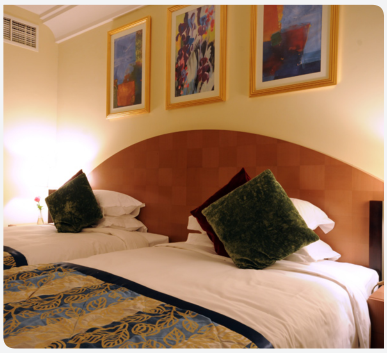
Projects

ZAMZAM TOWER

Makkah Al Mukarramah (Kingdom of Saudi Arabia) Annual Report 10

Munshaat Company is committed, when planning for its different projects, to participate as much as possible in finding and developing purposeful projects to provide a chance to a larger number of Muslims to achieve their dream of dwelling near the Holy Mosque and the Mosque of the Prophet (PBUH).





Zamzam Tower is one of the first Munshaat's projects and one of the largest real estate projects in the region. It is one of the biggest towers in the project of Abraj Al-Bait, within the endowments of King Abdulaziz, assigned for serving the Two Holy Mosques- Ajyad Castle.

The project is established on a plot owned by the endowments of King Abdulaziz, assigned for serving the Two Holy Mosques. It is the first of it's kind in Makkah Al-Mukarramah based on the (B.O.T.) system. The usufruct is for 25 Hijri years. The leased part of the tower is 33 floors, which includes 1315 residential units. The tower is highly characterized by its architectural design that matches the atmosphere of Makkah Al-Mukarramah, and the direct view of the Holy Mosque. It is also only 150 meters away from the King Abdulaziz's gate. Zamzam Tower is supported by 36 elevators to work according to smart advanced systems.

Projects

After the great success of its Zamzam Tower Project, Munshaat signed an understanding contract with Al-Qatair Group to develop “Bakka” tower which is one of five towers called “Al-Safwa Towers Project” that already built, with total land area of 9635 sq.m. Each tower is designed to demonstrate distinctive Islamic style and spiritual nature of place. Tower (3), known as Bakka Tower, is located in Ajyad Street in Makkah Al-Mukaramah, 50 meters away from the Holy Mosque.

The Tower comprises 22 residential floors divided into 438 units. It is characterized by the presence of commercial shops and restaurants within the Al-Safwa Towers Project, which facilitate the stay of the guests. The Tower’s units had been designed according to the specifications of first class hotel suites under the supervision of international interior designers.

After the great success attained by Munshaat in Makkah Al-Mukarramah, it commenced its investments in Al-Madina Al-Munawwarah. The City of Prophet (PBUH), the second Islamic Capital after Makkah Al-Mukarramah, investment was directed to Al-Madina Al-Munawwarah because of the ongoing increase in the prices of hotels and the increase of demand there. It is noted that the visitors of Al-Madina Al-Munawwarah increased in the last years. This is attributed to Allah's help and the facilities offered by the Saudi Government to the visitors. Based on such, Munshaat signed an agreement with the Central Committee in Al-Madina Al Munawwarah to invest the land of Dar Al-Qeblah Project for 25 Hijri years based on (B.O.T.) system. The land of the Project is located in Al-Banky Khadra neighborhood at Al-Madina Al-Munawwarah, some 150 meters away from the prophet's Holy Mosque. The total land area of AL-Qeblah Project is 8173 sq.m., but the total construction area is more than 10000 sq.m. and consists of:

1- Tower (A) Hotel Apartments 2- Tower (B) Hotel 3- Commercial Complex.

Dar Al-Qeblah Project consists of 853 residential units with architectural design that really fits the surrounding environment and atmosphere of Al-Madina Al-Munawwara. Specifications of rooms and suites' furniture comply with 5-stars hotel standards in addition to 299 commercial shops with total land area of 3175 sq.m. and with 514 parking slots located in the basement to serve the whole Tower.

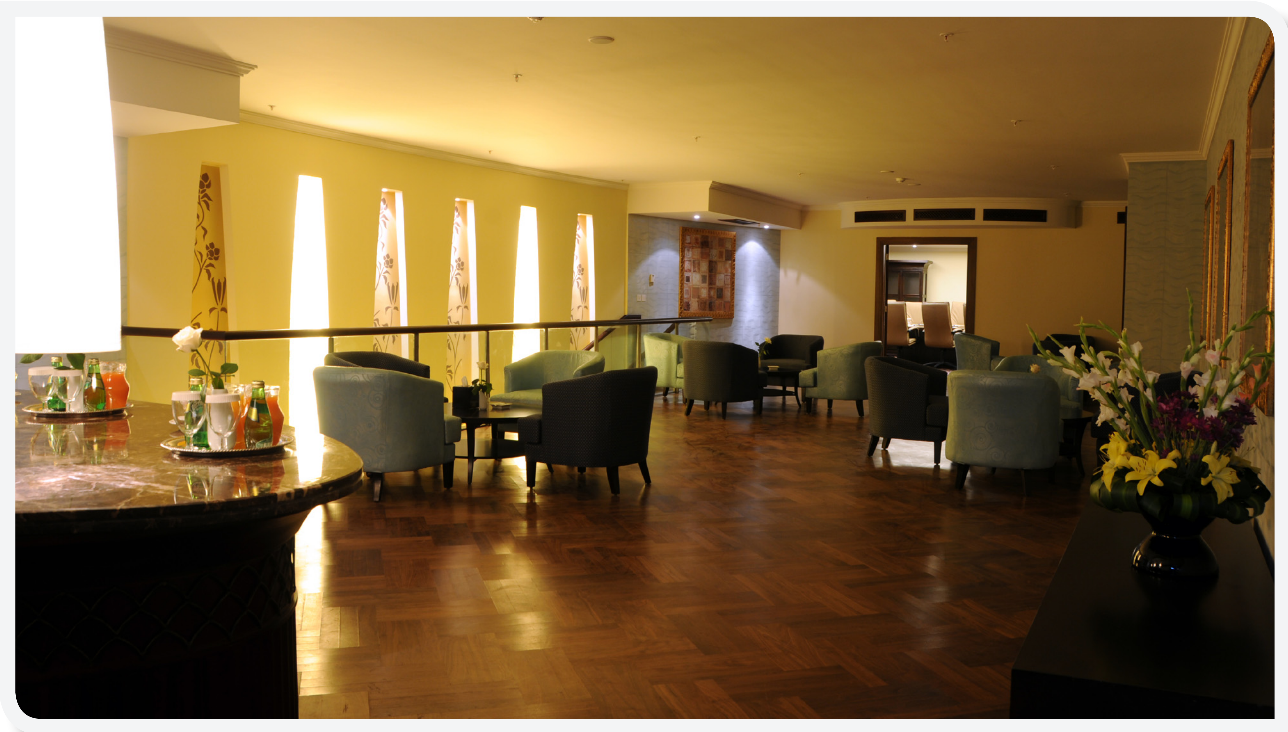
Subsidiary Companies

MUNSHAAT
Projects & Construction Company (K.S.A)

Establish date 27 June 2005
Capital SR 2,000,000

MAIN Activities & Objectives:

- To follow up on all under construction projects in the Kingdom of Saudi Arabia like Al-Safwa Project in Makkah Al-mukarramah, and Dar Al-Qibla Project in al Madinah Al-Munawwarah.
- To provide studies about the KSA market and its needs, and monitor any changes.
- To prepare budgets related to the current projects (prepare the furniture and operation equipments….etc).
- To prepare the bids and invite suppliers to provide special materials and final finishing of the project in addition to the furniture, equipments and follow up supply thereof.
- To review the projects' final diagrams and approve the same from advisory offices.
- To pay regular site visits, and monitor work execution.
- To follow up on any new projects in the central region of Makkah Al-Mukarramah.
- To closely follow up on the current progress in Jabal Omar Project.
- To review the internal designs of current projects.
- To study and review the contracts condlucded with suppliers during the execution of works, and identify the cost effective aspects as adopted in Zamzam Tower and Dar Al-Qibla Projects.
- To prepare the main contracts related to Zamzam Tower like insurance coverage of the building, furniture and other coverage.
- To pay regular visits to Zamzam Tower to monitor the financial statements (balance sheet) and compare the same to the American Unified Accounting System.
- To review the income, profit and loss statements, and monthly, annual financial flows.
- To review all expenses, suppliers contracts and quotations.
- To review the final accounts of Zamzam Tower and extent of compliance thereof with the management contract with ACCOR International.
- To review the balance sheet against the budget.
- To review the rooms' rates and compare the same to market rates and five-star hotels.
- To review rooms' average sale rates and the occupancy rate, and compare the same to the market.
- To prepare a monthly report including all notes on the monthly review of Zamzam Tower and follow up with the Chief Financial Officer to act accordingly.
- To prepare the daily andmonthly accounts of Munshaat- Jeddah, in addition to its final, monthly quarterly and annual accounts.
- To contact certain companies to identify the current and post-execution evaluation of the projects and any other businesses referred to us from Munshaat- Kuwait.



MAS HOLDING

MAS Holding Company was established in 2007 with capital of KD 1 million through a strategic alliance between Munshaat Real Estate Projects Company (60%) and Sokouk Holding Company (40%).
MAS HOLDINGAND Subsidiaries and Affiliates:

1- MAS International Company- Kuwait
2- MAS International Company- Egypt
3- MAS International Company – Kingdom of Saudia Arabia

Main Activities and Objectives for this Companies:
Marketing of all Real Estate Services and solutions.
One of the projects and achievements of MAS International Company: Zamzam Grand Studies- Makkah.
Currently markets and sells Sokouk utilization rights for Zamzam Tower in Makkah, one of Al-Beit Towers. The tower overlooks the Holyu Mosque in Makkah and has five different classes of hotel suits that sit all tastes and needs. It has 1314 hotel suits in 33 floors.

Al Mehrab Company

Al- Mehrab Real Estate Company is a Kuwaiti shareholding company (closed) incepted in mid-2008 by a group of strategic partners including Emirates Islamic Bank , Arab Investment Company , Athman Investment Company , Sorroh Investment Company and others in addition to Munshaat Real Estate Company. The company's capital is Kuwaiti Dinar 26 million fully paid-up.

Al-Mehrab was set up for the purpose of taking on lease all residential floors in the Fourth Tower called (AL-Mehrab Tower) of Al-Safwa Residential & Commercial Towers Complex located in Ajyad Street in Honorable Mecca, for utilization of the same as a hotel or hotel suites.

Al-Mehrab Tower consists of twelve residential floors comprising 372 (three hundred seventy-two) hotel residential units. The residential units start from the twelfth floor to the twenty-third floor, as well as an area allocated to parking for 10 (ten) cars, whereas the whole area under these residential floors are allocated to reception , in addition to other service areas for the kitchen, laundry and restaurants.

Shari'a Supervisory Board Report

Shari'a Supervisory Board Report

On Munshaat's Transactions and Dealings
For Financial Year Ending 31,12,2010
For Submission to the Company's General Assembly

Praise be to Allah, and Peace and Grace be upon Prophet Muhammad, all his Family and Followers.

Esteemed Shareholders of Munshaat Real Estate Projects Company,

Peace and Grace of Allah be Upon You …

We have monitored the principles applied by the Company and contracts related to dealings and applications offered by it during the mentioned period, and conducted the due Shari'a supervision thereon for giving an opinion about the extent of the Company's compliance with Shari'a rulings and principles as well as the specific fatwas, decisions and instructions we have issued.
The responsibility to assure the Company's compliance with Shari'a pertains to the Management whereas our responsibility is restricted to giving an independent opinion based on our supervision of the Company's transactions, and presenting a report thereon to you.
The supervision we conducted included inspection of documentation and the procedures followed by the Company on the basis of selection of every type of transactions.
Meanwhile, we have planned and executed our supervision to obtain all information and explanations deemed necessary to give us enough proofs to provide reasonable assurance that the Company did not breach any of the Shari'a rulings or principles.
In our opinion, the contracts and transactions executed by the Company during Financial Year ending 31.12.2010 that we have reviewed were Shari'a- compliant
To conclude, we supplicate to Allah, the Almighty to grant the Company's Management and all staff more progress and success in their business so as to prove the sound methodology and correct application of the Noble Islamic Shari'a.
Peace and Grace of Allah be Upon You…

انور

Dr. Anwar Abdul-Salam Shuaib
Shari'a Supervisor

CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Munshaat Real Estate Projects Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

ERNST & YOUNG

BAKER TILLY
KUWAIT
Dr. Saud Al-humaidi & Partners
Public Accountants

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

Report on the Consolidated Financial Statements (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Inherent Uncertainty Regarding Continuation of Going Concern

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which states that the Group incurred a loss of KD 15,026,905 for the year ended 31 December 2011 (2010: KD 18,915,506) and as at this date has accumulated losses of KD 30,817,765 (2010: KD 17,175,729) and its current liabilities exceed current assets by KD 124,535,439 (2010: KD 109,544,134). Furthermore, the Parent Company is actively engaged with its lenders to restructure its entire debt obligations due to the default on the repayment of certain debt obligations, and has also agreed with one of the major shareholders, whose debt has been defaulted, not to pursue the collection of the outstanding debt until the Parent Company completes the restructuring and rescheduling process. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and the consolidated financial statements incorporate all information that is required by the Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the Parent Company's Articles of Association have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the Parent Company or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

DR. SAUD AL-HUMAIDI
LICENSE NO. 51 A
DR. SAUD AL-HUMAIDI & PARTNERS
MEMBER OF BAKER TILLY
INTERNATIONAL

26 April 2012
Kuwait

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2011

	Notes	***2011*** ***KD***	*2010* *KD*
Revenues		**13,066,749**	12,982,868
Operating costs	6	**(14,121,118)**	(12,572,382)
OPERATING (LOSS) PROFIT		**(1,054,369)**	410,486
Sales commission		**296,461**	219,552
Management fees	12	**944,310**	958,186
Unrealised (loss) gain from financial assets carried at fair value through statement of income		**(994,703)**	274,351
Realised gain from financial assets carried at fair value through statement of income		**-**	72,478
Gain (loss) from investment properties	10	**413,218**	(9,373,216)
Finance income		**159,794**	334,334
Dividend income		**393,338**	39,000
Other income		**194,844**	398,792
Impairment of financial assets available for sale	9	**(1,019,541)**	(560,515)
Impairment of leasehold property	6	**(3,821,800)**	(1,535,026)
Impairment of accounts receivables	11	**(1,105,745)**	(3,114,596)
General and administrative expenses		**(3,319,452)**	(3,438,416)
Depreciation		**(183,048)**	(169,416)
Amortisation of intangible asset	7	**(112,740)**	(348,681)
Impairment of intangible asset	7	**(2,448,683)**	-
Finance costs		**(4,038,812)**	(4,340,614)
Foreign exchange gain		**776,678**	2,264,964
Share of results of associates	8	**(106,655)**	(1,007,169)
LOSS FOR THE YEAR	4	**(15,026,905)**	(18,915,506)
Attributable to			
Equity holders of the Parent Company		**(13,642,036)**	(19,224,231)
Non-controlling interests		**(1,384,869)**	308,725
LOSS FOR THE YEAR		**(15,026,905)**	(18,915,506)
BASIC AND DILUTED LOSS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY	5	**(42) Fils**	(60) Fils

The attached notes 1 to 22 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2011

	Notes	***2011*** ***KD***	*2010* *KD*
LOSS FOR THE YEAR		**(15,026,905)**	(18,915,506)
OTHER COMPREHENSIVE LOSS			
Financial assets available for sale			
- Net movement in cumulative change in fair values		**(1,119,460)**	(612,466)
- Impairment transferred to the consolidated statement of income	9	**1,019,541**	560,515
Share of other comprehensive income of associates	8	**(25,211)**	(70,385)
Exchange differences on translation of foreign operations		**(37,368)**	(158,554)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(162,498)**	(280,890)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(15,189,403)**	(19,196,396)
Attributable to:			
Equity holders of the Parent Company		**(13,812,638)**	(19,474,179)
Non-controlling interests		**(1,376,765)**	277,783
		(15,189,403)	(19,196,396)

The attached notes 1 to 22 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	***2011 KD***	*2010 KD*
ASSETS			
Non-current assets			
Property and equipment		**672,537**	437,596
Leasehold property	6	**119,910,693**	131,110,000
Intangible asset and goodwill	7	**-**	2,526,557
Investment in associates	8	**5,460,209**	5,592,075
Financial assets available for sale	9	**7,723,795**	9,010,594
Investment properties	10	**38,945,433**	36,619,561
Amounts due from related parties	12	**1,040,210**	-
		173,752,877	185,296,383
Current assets			
Financial assets carried at fair value through statement of income	12	**152,201**	250,684
Accounts receivable and prepayments	11	**2,019,921**	3,037,067
Amounts due from related parties	12	**16,212,681**	12,977,383
Wakala receivables		**84,149**	2,466,117
Cash and cash equivalents	13	**8,468,922**	6,691,962
		26,937,874	25,423,213
TOTAL ASSETS		**200,690,751**	210,719,596
EQUITY AND LIABILITIES			
Equity			
Share capital	14	**32,200,000**	32,200,000
Share premium		**12,400,000**	12,400,000
Statutory reserve	14	**8,854,013**	8,854,013
Voluntary reserve	14	**4,427,007**	4,427,007
Cumulative change in fair values		**(972,634)**	(872,715)
Foreign currency translation reserve		**(393,180)**	(322,497)
Accumulated losses		**(30,817,765)**	(17,175,729)
Equity attributable to equity holders of the Parent Company		**25,697,441**	39,510,079
Non-controlling interests		**(415,174)**	1,361,591
Total equity		**25,282,267**	40,871,670
Non-current liabilities			
Murabaha payables	15	**-**	3,277,174
Obligations under finance leases	16	**1,638,474**	1,647,972
Accounts payable and accruals	17	**5,958,039**	5,957,174
Amounts due to related parties	12	**16,108,009**	23,841,021
Employees' end of service benefits		**230,649**	157,238
		23,935,171	34,880,579
Current liabilities			
Murabaha payables	15	**75,220,216**	69,982,873
Obligations under finance leases	16	**71,786**	77,018
Accounts payable and accruals	17	**46,046,711**	44,406,534
Amounts due to related parties	12	**30,134,600**	20,500,922
		151,473,313	134,967,347
Total liabilities		**175,408,484**	169,847,926
TOTAL EQUITY AND LIABILITIES		**200,690,751**	210,719,596

Jassem Mohammad Bader Al Duwaikh
Chairman

The attached notes 1 to 22 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2011

	Equity attributable to shareholders of the Parent Company									
	Share capital KD	*Share premium KD*	*Statutory reserve KD*	*Voluntary reserve KD*	*Cumulative change in fair values KD*	*Foreign currency translation reserve KD*	*Accumulated losses KD*	*Sub-total KD*	*Non-controlling interests KD*	*Total equity KD*
Balance at 1 January 2011	32,200,000	12,400,000	8,854,013	4,427,007	(872,715)	(322,497)	(17,175,729)	39,510,079	1,361,591	40,871,670
Loss for the year	-	-	-	-	-	-	(13,642,036)	(13,642,036)	(1,384,869)	(15,026,905)
Other comprehensive loss (income) for the year	-	-	-	-	(99,919)	(70,683)	-	(170,602)	8,104	(162,498)
Total comprehensive loss for the year	-	-	-	-	(99,919)	(70,683)	(13,642,036)	(13,812,638)	(1,376,765)	(15,189,403)
Cash dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(400,000)	(400,000)
Balance at 31 December 2011	**32,200,000**	**12,400,000**	**8,854,013**	**4,427,007**	**(972,634)**	**(393,180)**	**(30,817,765)**	**25,697,441**	**(415,174)**	**25,282,267**
Balance at 1 January 2010	32,200,000	12,400,000	8,854,013	4,427,007	(750,379)	(194,885)	1,983,665	58,919,421	1,277,645	60,197,066
(Loss) profit for the year	-	-	-	-	-	-	(19,224,231)	(19,224,231)	308,725	(18,915,506)
Other comprehensive loss for the year	-	-	-	-	(122,336)	(127,612)	-	(249,948)	(30,942)	(280,890)
Total comprehensive (loss) income for the year	-	-	-	-	(122,336)	(127,612)	(19,224,231)	(19,474,179)	277,783	(19,196,396)
Reclassification of non-controlling interests	-	-	-	-	-	-	64,837	64,837	(64,837)	-
Cash dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	(129,000)	(129,000)
Balance at 31 December 2010	32,200,000	12,400,000	8,854,013	4,427,007	(872,715)	(322,497)	(17,175,729)	39,510,079	1,361,591	40,871,670

The attached notes 1 to 22 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

OPERATING ACTIVITIES	Notes	*2011* *KD*	*2010* *KD*
Loss for the year		**(15,026,905)**	(18,915,506)
Adjustments for:			
Depreciation		**183,048**	169,416
Amortisation	6&7	**7,199,767**	7,553,933
Share of results of associates	8	**106,655**	1,007,169
Impairment of accounts receivables	11	**1,105,745**	3,114,596
Foreign exchange gain		**(776,678)**	(2,264,964)
Finance income		**(159,794)**	(334,334)
Dividend income		**(393,338)**	(39,000)
Impairment of available for sale financial assets		**1,019,541**	560,515
Impairment of leasehold property	6	**3,821,800**	1,535,026
Impairment of intangible assets		**2,448,683**	-
Unrealised gain from financial assets carried at fair value through statement of income		**994,703**	(274,351)
Realised gain on sale of financial assets carried at fair value through statement of income		**-**	(72,478)
Change in fair value of investment properties	10	**227,610**	7,341,248
Finance costs		**3,789,022**	4,340,614
Provision for employees' end of service benefits		**75,330**	44,678
		4,615,189	3,766,562
Working capital changes:			
Amounts due from / to related parties		**(1,509,172)**	(399,324)
Accounts receivable and prepayments		**(514,662)**	(1,912,158)
Accounts payable and accruals		**2,843,783**	6,911,341
Cash from operations		**5,435,138**	8,366,421
Employees' end of service benefits paid		**(1,919)**	(15,538)
Finance costs paid		**(291,699)**	(3,537,282)
Net cash from operating activities		**5,141,520**	4,813,601
INVESTING ACTIVITIES			
Net movement in wakala receivables		**-**	(81,665)
Net movment in intangible assets		**(34,866)**	-
Net movement in financial assets available for sale		**167,339**	-
Purchase of property and equipment		**(417,989)**	(37,342)
Net movement in investment properties		**(2,553,482)**	(2,779,715)
Net movement in leasehold property		**290,480**	652,141
Net movement in financial assets carried at fair value through statement of income		**(896,220)**	539,319
Finance income received		**159,794**	10,554
Dividends income received		**393,338**	39,000
Net cash used in investing activities		**(2,891,606)**	(1,657,708)
FINANCING ACTIVITIES			
Dividend paid to non-controlling interests		**(400,000)**	(129,000)
Net movement in murabaha payables		**(20,856)**	7,231,537
Movement in obligations under finance leases		**(14,730)**	(9,036,381)
Net cash used in financing activities		**(435,586)**	(1,933,844)
Foreign currency translation adjustment		**(37,368)**	(88,168)
INCREASE IN CASH AND CASH EQUIVALENTS		**1,776,960**	1,133,881
Cash and cash equivalents at 1 January		**6,691,962**	5,558,081
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	13	**8,468,922**	6,691,962

The attached notes 1 to 22 form part of these consolidated financial statements.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2011

1 CORPORATE INFORMATION

The consolidated financial statements of Munshaat Real Estate Projects Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the board of directors on 26 April 2012. The General Assembly of the shareholders of the Parent Company has the power to amend these consolidated financial statements after issuance.

The Parent Company was established on 8 April 2003 in accordance with the articles of association authenticated at Real Estate Registration and Authentication Department in the Ministry of Justice under No. 1416/Vol.1.

The main objectives of the Group are to own, sell and purchase real estate, in addition to developing real estate for the benefit of the Group inside and outside the State of Kuwait, and to manage properties on behalf of other parties. The Group also can utilise its surpluses by investing them in financial and real estate portfolios that are managed by specialised investment managers. The Group shall not directly or indirectly perform any operations that include dealing through usury or any other work that may contradict the Islamic Shari'a.

The Parent Company's registered address is P.O. Box 1393 Dasman – 15464 - State of Kuwait.

2 FUNDAMENTAL ACCOUNTING CONCEPT

For the year ended 31 December 2011, the Group incurred a loss of KD 15,026,905 (2010: KD 18,915,506), has accumulated losses of KD 30,817,765 (2010: KD 17,175,729), and, as at that date, the Group's current liabilities exceed its current assets by KD 124,535,439 (2010: KD 109,544,134). Furthermore, the Parent Company defaulted on repayment of Murabaha payable of KD 38,089,182 and also on amounts due to related parties amounting to KD 14,325,234 that were overdue at 31 December 2011.

The factors mentioned above cast a significant doubt about the Group's ability to continue as a going concern and its ability to realise its assets and discharge its liabilities in the normal course of business.

The management of the Parent Company has taken a number of steps to regularise the Group's obligations and obtain longer term funding. Further, the Parent Company's management has taken certain steps to improve their operations of Zam Zam tower and enhance the revenue generating abilities. Some of which are described below:

- The board of directors of the Parent Company has been reconstituted and new executive management personnel have been appointed to manage the operations of the Group including a new Chief Executive Officer.
- The executive management of the Parent Company is actively pursuing the restructuring of its liabilities with all creditors and lenders and have appointed consultants to advise the Group on the restructuring which is expected to be completed within one year from the reporting date.
- The Parent Company's management has appointed a specialized real estate consultant to conduct operational review of the leasehold property Zam Zam Grand Suites for the enhancement of its performance.

  In addition, the Parent Company's management has entered into an agreement with one of the leading hotel management service provider to enhance the revenue generation from the operations of Zam Zam which will have major positive impact from the year 2012.
- Subsequent to the reporting date, the Group secured sufficient funding for the completion of a property under development in the Kingdom of Saudi Arabia from which the management of the Parent Company expects significant operating cash inflows effective 2013.
- One of the major shareholders of the Parent Company to whom the Group owes KD 41,960,086 (2010: KD 40,960,086), has agreed to grant more time and will not pursue the collection of these outstanding dues until the Parent Company completes the restructuring and rescheduling process as stated above.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2011

2 FUNDAMENTAL ACCOUNTING CONCEPT (continued)

The ability of the Group to continue as a going concern is dependent on rescheduling the terms of debt obligations with the creditors, continued support from shareholders and future profitability which is dependent on adoption and implementation of the restructuring plan currently in discussions with the majority of the Group's creditors and lenders as discussed above. The management is confident of the positive outcome of the discussions with the creditors and the debt restructuring plan and, therefore, has prepared the consolidated financial statements under the going concern concept of accounting.

Had the going concern basis not been used, adjustments would be made relating to the recoverability of recorded asset amounts, or to the amounts of liabilities to reflect the fact the Group may be required to realise its assets and extinguish its liabilities other than in the normal course of business, at amounts different from those stated in the consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of leasehold property, financial assets available for sale, investment properties and financial assets carried at fair value through statement of income (excluding profit rate swaps). The consolidated financial statements have been presented in Kuwaiti Dinars which is also the functional and presentation currency of the Parent Company.

3.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (collectively the "Group") as at 31 December 2011. Subsidiaries are those enterprises controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Subsidiaries are fully consolidated from the date of acquisition being the date on which the Group obtains control, and continue to be consolidated until the date the control ceases. The financial statements of the subsidiaries are prepared for same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the net assets (excluding goodwill) of consolidated subsidiaries not attributable directly, or indirectly, to the equity holders of the Parent Company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

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

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

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 BASIS OF CONSOLIDATION (continued)

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as detailed below:

Name of the company	*Country of incorporation*	*Effective equity interest as at 31 December*		*Principal activities*
		2011	*2010*	
Directly held:				
Munshaat for Projects and Contracting Company W.L.L.	Kingdom of Saudi Arabia	**100%**	100%	Contracting and real estate activities
Al Reyada Real Estate Financial Centre Company W.L.L.	Kuwait	**100%**	100%	Real estate company
Al Waha International Real Estate Projects Company W.L.L.	Kuwait	**100%**	100%	Real estate company
MAS Holding Company K.S.C. (Closed)	Kuwait	**60%**	60%	Holding company
Held by MAS Holding Company K.S.C (Closed):				
MAS International General Trading and Contracting Company W.L.L.	Kuwait	**98%**	98%	General trading and contracting activities
MAS Com for Media and advertising W.L.L.#	Kuwait	**98%**	98%	Media and advertising
Held by MAS International General Trading and Contracting Company W.L.L.:				
Korfez Uluslararasi Turizm Ve Pazarlama Ticaret Ltd Sti W.L.L.#	Turkey	**100%**	100%	Tourists and Haj &Umra services
MAS International Egypt W.L.L.	Egypt	**100%**	100%	Real estate projects management
MAS Al Oula W.L.L.	Kingdom of Saudi Arabia	**99.5%**	99.5%	Real estate projects management

These subsidiaries are under liquidation and the legal process for liquidation is in progress as at the reporting date.

3.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in previous year, except for the following issued, revised and amended IASB Standards and International Financial Reporting Interpretation Committee ("IFRIC") interpretations adopted by the Group during the year:

IAS 24: Related party disclosures (effective for annual periods beginning on or after 1 January 2011).
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 CHANGE IN ACCOUNTING POLICY AND DISCLOSURES (continued)

IAS 32: Financial Instruments: Presentation – Classification of Rights Issues (Amendment) (effective for annual periods beginning on or after 1 February 2010)
The amendment to IAS 32 alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no impact on the financial position or performance of the Group because the Group does not have these type of instruments.

Improvement to IFRSs (issued in May 2010)
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

- IFRS 3 *Business Combinations:* The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- IFRS 7 *Financial Instruments: Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 *Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income may be either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 *Business Combinations*- Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination.
- IAS 27 *Consolidated and Separate Financial Statements*- applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards.
- IFRIC 13 *Customer Loyalty Programmes*- in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme.

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

New and revised International Accounting Standards Board ("IASB") standards relevant to the Group issued but not yet effective:

The following IASB Standards, relevant to the Group, have been issued but are not yet mandatory, and have not yet been adopted by the Group:

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9: Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected in the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation - Special Purpose Entities.*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management of the Parent Company to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by the Parent Company, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. The standard does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 27 Separate Financial Statements (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

The Group, however, expects no material impact from the adoption of the above amended or new standards on its financial position or performance.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised.

Revenue represents the rental income and the invoiced value of goods and services provided by the Group from the hospitality services.

Finance income is recognised on a time proportion basis so as to yield a constant periodic rate of return based on the net balance outstanding.

Management fees, incentive fees, arrangement and advisory fees, and placement fees are recognised when earned upon performance of services envisaged under the service agreements.

Commission income is recognised upon completion of sales agreement.

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

Gain or (loss) on sale of investment properties is recognised when the significant risks and rewards of ownership have passed to the buyer and the amount of revenue can be measured reliably.

Finance costs
Finance costs that are directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete. Other finance costs are recognised as an expense in the period in which they are incurred.

KFAS, NLST and Zakat
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST) and Zakat represent taxes/levies imposed on the Parent Company at the flat percentage of net profits less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait. Under prevalent taxation/levy regulations no carry forward of (losses) is permitted and there are no significant differences between the tax /levy bases of assets and liabilities and their carrying amount for financial reporting purposes.

Tax/statutory levy	Rate
Contribution to KFAS	1.0% of net profit less permitted deductions
NLST	2.5% of net profit less permitted deductions
Zakat	1.0% of net profit less permitted deductions

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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 at the acquisition date through profit or loss.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and/or accumulated impairment losses, if any.

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

Furniture and fixtures	over 3 to 5 years
Equipment and computers	over 3 to 4 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their values in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment and leasehold property. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in the an arrangement.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As at 31 December 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Leases where the Group is a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of profit on the remaining balance of the liability. Finance charges are reflected in the consolidated statement of income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leasehold property is amortised over the period of 19.5 years, less any accumulated impairment.

Operating lease payments are recognised as expense on straight line basis over the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the Group is a lessor

Leases where the Group doesn't transfer substantially all the risks and benefits of ownership of the assets are classified as operating lease. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they have earned.

Intangible assets

The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

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

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible assets. The Group determined the useful life of the intangible asset to be 10 years.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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

Investment in associates

The Group's investment in its associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor separately tested for impairment.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates (continued)
The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. Distributions received from an associate reduce the carrying value of the investment. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the Group, using consistent accounting policies.

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

Upon loss of significant influence over the associate, the Group measures and recognises any retained 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 retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Investment properties
Investment properties are initially measured at cost, including transaction costs. The carrying cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day to day servicing of investment property. After the initial recognition, the investment property is carried at fair value that is determined based on valuation performed by accredited independent valuators periodically using valuation methods consistent with the nature and usage of the investment property. Gains or (losses) from change in the fair value are recognised in the consolidated statement of income. However, in case of investment properties whose fair value cannot be reliably measured the same are carried at cost less accumulated impairment, if any.

Investment property is derecognised when either it has been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or (losses) are recognised in the consolidated statement of income in the year of retirement or disposal.

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

Financial instruments- initial recognition and subsequent measurement
(i) Financial assets
Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as financial assets carried at fair value through statement of income, loans and receivables, financial assets available for sale, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, transaction costs, except in the case of financial assets recorded at fair value through statement of income.

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

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments- initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

Initial recognition and measurement (continued)
The Group's financial assets include cash and cash equivalents, accounts receivable, wakala receivables, financial assets carried at fair value through statement of income and financial assets available for sale.

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

Accounts receivables
These are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. After initial recognition, receivables are carried at amortised cost using the effective profit rate method less a provision for any uncollectible amount. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective profit rate. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Wakala receivables
Short-term wakala investments are financial assets originated by the Group and represent deals with affiliated companies with an original maturity of three months or less. These are stated at amortised cost and are subject to an insignificant risk of changes in value.

Financial assets carried at fair value through statement of income
Financial assets at fair value through statement of incom includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through statement of income. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on financial assets held for trading are recognised in consolidated statement of income. Financial assets are designated at fair value through statement of income if they are managed and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Dividend income is recorded in '(loss) gain on financial assets at fair value through statement of income' when right to the payment has been established. Profit rate swaps are categorized as held for trading.

Financial assets available for sale
Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are neither classified as islamic finance receivables nor classified as financial assets at fair value through statement of income.

After initial measurement, financial assets available for sale are subsequently measured at fair value with gains or (losses) being recognised as other comprehensive income in the cumulative change in fair values reserve until the investment is derecognised at which time the cumulative gain or (loss) is recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment, if any.

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments- initial recognition and subsequent measurement (continued)

(i) Financial assets (continued)

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Financial assets carried at amortised cost
For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

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

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

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Impairment of financial assets (continued)

Financial instruments- initial recognition and subsequent measurement (continued)

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

(iii) Financial liabilities

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

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include accounts payable and accruals and murabaha payables.

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

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

Murabaha payables
Murabaha payables represent the amount payables on a deferred settlement basis for assets purchased under murabaha arrangements. Murabaha payables are stated at the gross amount of the payables, net of deferred profit payables. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

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

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

(iv) Fair values of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instrument not traded in active market, fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transaction, reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Fair values of financial instruments

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

Impairment of non financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the consolidated statement of income in those expense categories consistent with the function of the impaired asset, except for land or building previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following assets have specific characteristics for impairment testing:

Goodwill
Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognised. Impairment loss relating to goodwill cannot be reversed in future periods.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Cash and cash equivalents
Cash and cash equivalents consists of bank balances and cash.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Fair values of financial instruments

Employees' end of service benefits
The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Group makes contributions to social security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Foreign currency translation
The Group's consolidated financial statements are presented in Kuwait Dinars, which is also the Parent Company's functional currency.

Transactions and balances
Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences arising on settlement or translation of monetary items are taken to the consolidated statement of income with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

i) Group companies
The assets and liabilities of foreign operations are translated into Kuwaiti Dinars at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

Profit rate swaps
The Group uses profit rate swaps as derivative for commodity forward.

Profit rate swap instruments ("the instruments") are measured at their fair value. The fair value of these instruments includes unrealised gain or (loss) from marking to market the instruments using prevailing market rates or internal pricing models. The instruments with positive market values (unrealised gains) are included in other assets and the instruments with negative market values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

The resultant gains and (losses) from profit rate swaps are taken directly to the consolidated statement of income.

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

3.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements
Classification of investments
Management decides on acquisition of investments whether they should be classified as available for sale financial assets or financial assets carried at fair value through statement of income.

The management classifies financial assets as carried at fair value through statement of income if they are acquired primarily for the purpose of short term profit making and fair value of those investments can be reliably determined.

Classification of financial assets as fair value through statement of income also depends on how management monitor the performance of these financial assets when they are not classified as held for trading but have readily available fair values and if the changes in fair values are reported as part of profit or (loss) in the management accounts, they are classified as fair value through statement of income.

All other financial assets are classified as available for sale.

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

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

The management classifies real estate as property under development if it is acquired with the intention of development.

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

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

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

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries
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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Estimates and assumptions (continued)

Useful lives of plant and equipment and leasehold property
The Group's management determines the estimated useful lives of its plant and equipment and leasehold property for calculating depreciation and amortisation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation and amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

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

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

Impairment of leasehold property
The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication or objective evidence of impairment or when annual impairment testing for an asset is required. If any such indication or evidence exists, the asset's recoverable amount is estimated and an impairment is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount.

Valuation of unquoted investments
Valuation of unquoted equity investments is normally based on one of the following:
- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Valuation of investment properties and leasehold property
For investment properties and leasehold property, fair value is determined by independent, registered, real estate assessors or by reference to recent transactions in similar properties.

4 LOSS FOR THE YEAR

The loss for the year is stated after charging:

	2011	*2010*
	KD	*KD*
Staff costs	**1,784,414**	1,628,486
Operating rental leases	**235,016**	260,616
Unrealised loss on profit rate swaps	**(896,220)**	(466,840)

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5 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share attributable to the equity holders of the Parent Company are calculated by dividing the loss for the year attributable to equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the year as follows:

	2011 ***KD***	*2010* *KD*
Loss for the year attributable to the equity holders of the Parent Company (KD)	**(13,642,036)**	(19,224,231)
Weighted average number of ordinary shares outstanding during the year (shares)	**322,000,000**	322,000,000
Basic and diluted loss per share attributable to the equity holders of the Parent Company	**(42) fils**	(60) fils

6 LEASEHOLD PROPERTY

The movement in leasehold property is as follows:

	2011 ***KD***	*2010* *KD*
Opening balance	**131,110,000**	-
Transferred from investment property (Note 10)	**-**	140,502,419
Amortisation for the year	**(7,087,027)**	(7,205,252)
Impairment	**(3,821,800)**	(1,535,026)
Disposals	**(290,480)**	(652,141)
Closing balance	**119,910,693**	131,110,000

From 1 January 2010, the Group reclassified a leasehold property, Zamzam Tower, from investment property to leasehold property at the fair value of KD 140,502,419 due to the change in use of the leasehold property.

The amortisation for the year is included under operating costs in the consolidated statement of income.

Leasehold property with a carrying value of KD 16,828,071 (2010: KD 18,502,859) is mortgaged against a murabaha payable obtained from a local Islamic financial institution which is also a related party (Note 15).

7 INTANGIBLE ASSET AND GOODWIL

	Intangible assets ***KD***	***Goodwill*** ***KD***	***Total*** ***KD***
Balance at 1 January 2011	813,595	1,712,962	2,526,557
Addition	34,866	-	34,866
Amortisation for the year	(112,740)	-	(112,740)
Impairment	(735,721)	(1,712,962)	(2,448,683)
Balance at 31 December 2011	-	-	-

Munshaat Real Estate Projects Company K.S.C. (Closed) and Subsidiaries

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7 INTANGIBLE ASSET AND GOODWIL (continued)

	Intangible assets KD	*Goodwill KD*	*Total KD*
Balance at 1 January 2010	-	2,875,238	2,875,238
Reclassification to intangible assets	1,162,276	(1,162,276)	-
Amortisation for the year	(348,681)	-	(348,681)
Balance at 31 December 2010	813,595	1,712,962	2,526,557

During the current year, the Group has recorded an impairment of KD 2,448,683 (2010: KD Nil) in the consolidated statement of income based on the impairment testing of goodwill and intangible assets recognised on acquisition of MAS International for General Trading and Contracting W.L.L,.

8 INVESTMENT IN ASSOCIATES

	Country of incorporation	*Percentage of ownership*		***2011***	*2010*
		2011	*2010*	***KD***	*KD*
Qitaf GCC Real Estate Fund (Qitaf)	Kuwait	**28.4%**	28.4%	**1,952,686**	2,219,424
Athman Al Khalijya Company W.L.L.	Kuwait	**32.6%**	32.6%	**3,507,523**	3,372,651
				5,460,209	5,592,075

	2011 KD	*2010 KD*
Balance as at 1 January	**5,592,075**	6,669,629
Share of results	**(106,655)**	(1,007,169)
Share of changes in other comprehensive loss	**(25,211)**	(70,385)
Balance as at 31 December	**5,460,209**	5,592,075

The following table provides summarised information of the Group's investment in associates:

	2011 KD	*2010 KD*
Share of associates' financial positions:		
Assets	**6,781,182**	6,295,743
Liabilities	**(1,320,973)**	(703,668)
Net assets	**5,460,209**	5,592,075
Share of associates' revenues and results:		
Revenues	**301,578**	145,397
Results	**(106,655)**	(1,007,169)

The associates are unquoted.

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9 FINANCIAL ASSETS AVAILABLE FOR SALE

	2011 ***KD***	*2010* *KD*
Unquoted securities	**2,445,142**	2,620,456
Unquoted real estate funds	**5,278,653**	6,390,138
	7,723,795	9,010,594

Unquoted securities include investments amounting to KD 1,423,899 (2010: KD 2,809,048) that are carried at cost, less impairment, due to the unpredictable nature of their future cash flows and lack of other suitable methods for arriving at a reliable fair value of these investments.

During the year, the Group recorded an impairment of KD 1,019,541 (2010: KD 560,515) against unquoted securities based on information available to management of the Parent Company. The management of the Parent Company is not aware of any circumstances that would indicate any further impairment in the value of these investments at the financial position date.

Hierarchy for determining and disclosing the fair values of financial instruments by valuation technique are presented in Note 22.

10 INVESTMENT PROPERTIES

	2011 ***KD***	*2010* *KD*
Opening balance	**36,619,561**	181,683,513
Additions	**2,553,482**	2,779,715
Transferred to leasehold property (Note 6)	**-**	(140,502,419)
Change in fair values	**(227,610)**	(7,341,248)
Closing balance	**38,945,433**	36,619,561

The total capitalised borrowing costs included in the carrying value of investment properties is KD 3,797,283 (2010: KD 2,566,379).

The changes in fair values for the current year relates to properties located in the Kingdom of Saudi Arabia and Kuwait and are based on external valuations by accredited independent valuators using acceptable methods of valuation such as sales comparison and income capitalization.

Investment properties include a property under development amounting to KD 23,485,090 (2010: KD 20,898,152) which is measured at cost as the fair value cannot be reliably determined until such time the development is complete. However, based on the information available, the management of the Parent Company believes that there are no indicators of impairment of carrying amount of this investment property.

Investment properties with a carrying value of KD 8,045,000 (2010: KD 8,000,000) are mortgaged against certain murabaha payables (Note 15).

Gain (loss) from investment properties included in the consolidated statement of income includes the following:

	2011 ***KD***	*2010* *KD*
Change in fair values	**(227,610)**	(7,341,248)
Net rental income	**640,828**	399,490
Reversal of gain on cancellation / revision of sale agreement of lease rights	**-**	(2,431,458)
	413,218	(9,373,216)

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11 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2011 KD	*2010 KD*
Receivable from sale of investment properties	**1,295,586**	2,015,839
Advances to contractors	**247,399**	338,602
Prepaid expenses	**28,196**	34,630
Staff receivable	**32,790**	4,642
Other receivables	**415,950**	643,354
	2,019,921	3,037,067

At 31 December 2011, receivables at nominal value of KD 8,154,896 (2010: KD 7,049,151) were fully impaired and provided for.

Movement in the allowance for impairment of receivables were as follows:

	2011 KD	*2010 KD*
Opening balance	**7,049,151**	3,934,555
Charge for the year	**1,105,745**	3,114,596
Closing balance	**8,154,896**	7,049,151

The analysis of unimpaired trade receivables (receivables from sale of investment properties and advances to contractors) is as follows:

			Past due but not impaired				
	Total KD	*Neither past due nor impaired KD*	*< 30 days KD*	*30 – 60 days KD*	*60 – 90 days KD*	*90 – 120 days KD*	*More than 120 days KD*
31 December 2011	**1,542,985**	**185,158**	**262,308**	**385,746**	**169,728**	**293,167**	**246,878**
31 December 2010	2,354,441	186,927	500,195	433,503	366,810	533,542	333,464

It is not the Group's policy to obtain collateral over receivables.

12 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates, directors and key management personnel of the Group, and entities which are controlled by them or over which they exert significant influence. Pricing policies and terms of these transactions are approved by the Parent Company's management.

Transactions with related parties included in the consolidated statement of income are as follows:

	Major shareholders KD	*Other related parties KD*	***2011 KD***	*2010 KD*
Management fees	-	944,310	**944,310**	958,186
Finance income	-	153,138	**153,138**	334,334
Finance costs	(2,068,904)	(1,058,023)	**(3,126,927)**	(3,602,625)

In addition to the finance costs mentioned above the Group has incurred finance costs amounting to KD 1,230,904 2010: KD 1,146,081) on related parties murabahas that were capitalised during the year.

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12 RELATED PARTY TRANSACTIONS (continued)

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

	Major shareholders KD	*Other related parties KD*	***2011 KD***	*2010 KD*
Financial assets available for sale	-	3,913,025	**3,913,025**	4,695,873
Financial assets at fair value through statement of income	152,201	-	**152,201**	250,684
Wakala receivables	-	-	**-**	2,381,674
Cash and cash equivalents	-	10,486	**10,486**	14,132
Amounts due from related parties (current and non-current)	-	17,252,891	**17,252,891**	12,977,383
Amount due to related parties (current and non-current)	43,468,537	2,774,072	**46,242,609**	44,341,943
Murabaha payables (Note 16)	17,418,905	31,128,897	**48,547,802**	46,436,770

Amounts due from / to related parties disclosed on the face of the consolidated statement of financial position are free of profit and unsecured.

Included in amounts due to related parties is an amount of KD 39,412,318 (2010: KD 38,303,763) which resulted from acquisition of leasehold property. Of this amount, KD 14,325,234 (2010: KD 8,849,925) was overdue as at 31 December 2011.

The non-current portion of amount due from related parties is discounted at an effective discount rate of 7.50% (2010: Nil) per annum and the non-current portion of amounts due to related parties is discounted at an effective discount rate of 6% (2010: 6%) per annum.

Compensation of key management personnel
The remuneration of directors and other members of key management during the year is as follows:

	2011 KD	*2010 KD*
Salaries and short term benefits	**403,190**	397,238
Employees' end of service benefits	**17,907**	11,181
	421,097	408,419

13 CASH AND CASH EQUIVALENTS

	2011 KD	*2010 KD*
Bank balances and cash	**8,468,922**	6,691,962

Bank balances represent non-interest bearing current bank accounts held mainly with Islamic financial institutions. As at 31 December 2011, bank balances include KD 10,486 placed with a related party (2010: KD 14,132) (Note 12).

14 SHARE CAPITAL, STATUTORY AND VOLUNTARY RESERVES

	2011	*2010*
	KD	*KD*
Authorised, issued and paid up capital consists of 322,000,000 (2010: 322,000,000) shares of 100 fils each paid in cash.	**32,200,000**	32,200,000

The board of directors have not proposed any dividends for the financial year ended 31 December 2011 (2010: Nil).

Statutory Reserves
As required by Commercial Companies Law and the Parent Company's articles of association, 10% of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration to be transferred to statutory reserve. No transfer is required for the year as loss is incurred. The Parent Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital.

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

Voluntary Reserves
As required by the Parent Company's articles of association, 5% of the profit for the year before KFAS, NLST, Zakat and board of directors' remuneration to be transferred to general reserve.

The ordinary general assembly meeting may upon an approval by the board of directors of the Parent Company increase the percentage as it deems appropriate, and may resolve to discontinue such annual transfers, if proposed by the board of directors of the Parent Company.

As the Parent Company incurred losses during the current year, no such transfers were made.

15 MURABAHA PAYABLES

	2011	*2010*
	KD	*KD*
Gross amount	**76,400,622**	74,773,452
Less: deferred profit payable	**(1,180,406)**	(1,513,405)
	75,220,216	73,260,047

	2011	*2010*
	KD	*KD*
Current portion	**75,220,216**	69,982,873
Non-current portion	-	3,277,174
	75,220,216	73,260,047

The average profit rate attributable to murabaha payables is 5.6% (2010: 5.6%) per annum. Murabaha payables amounting to KD 48,547,802 (2010: KD 46,436,770) are with related parties (Note 12) of which KD 18,023,623 (2010: KD 19,459,063) is secured by leasehold property with a carrying value of KD 16,828,071 (Note 6) (2010: KD 18,502,859) against the same property that was held as investment property.

Murabaha payables amounting to KD 6,002,137 (2010: 6,097,233) are secured by an investment property with a carrying value of KD 8,045,000 (2010: KD 8,000,000) (Note 10).

The Group has defaulted principal repayments on a murabaha payable amounting to KD 38,089,182 (2010: KD 20,822,210) that were overdue as at 31 December 2011.

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16 OBLIGATIONS UNDER FINANCE LEASES

	2011 *KD*	*2010* *KD*
Lease obligations	**1,710,260**	1,724,990
Less: current portion	**(71,786)**	(77,018)
Long term obligations under finance leases	**1,638,474**	1,647,972

Obligations under finance leases relate to project at Al-Madina Al-Monawara, and represent the future instalments due for the net present value of minimum lease payments for property interests acquired under finance lease which are classified as investment property. The instalments due within twelve months from the financial position date are shown under current liabilities.

The minimum lease payments by year are as follows:

	2011 *KD*	*2010* *KD*
2011	**-**	112,380
2012	**111,555**	112,380
2013	**111,555**	112,380
Thereafter	**2,900,430**	2,921,880
Total minimum lease payments	**3,123,540**	3,259,020
Less: estimated lease amount representing finance charges relating to future years	**(1,413,280)**	(1,534,030)
Present value of minimum finance lease rental payments	**1,710,260**	1,724,990
Current portion of lease obligations	**(71,786)**	(77,018)
Non-current portion of lease obligations	**1,638,474**	1,647,972

17 ACCOUNTS PAYABLE AND ACCRUALS

	2011 *KD*	*2010* *KD*
Payables to contractors for leasehold property and investment properties	**26,563,971**	27,441,060
Accrued expenses	**466,352**	263,563
Unearned revenue	**6,693,600**	6,742,800
Advances from customers	**1,192,876**	3,181,149
Other payables	**17,087,951**	12,735,136
	52,004,750	50,363,708

Included in payables to contractors for leasehold property and investment properties and unearned revenue is an amount of KD 5,958,039 (2010: KD 5,957,174) which is due after one year from the financial position date and accordingly it is classified as non-current accounts payable.

Other payables include an amount of KD 6,683,960 (2010: 6,733,089) that represents a liability created on revision of a sale agreement relating to lease rights in a real estate deal that was executed in the period ended 31 December 2008.

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18 SEGMENTAL INFORMATION

Primary segment information

For management purposes the Group is organised into two major business segments. The principal activities and services under these segments are as follows:

Investment : Managing portfolio of investments.
Real estate : Purchase, sale, development and renting of properties including hospitality services.

The management monitors the operating results of its business units separately for the purpose making decision about resource allocation and performance assessment.

2011	*Investment KD*	*Real estate KD*	*Unallocated KD*	*Total KD*
Segment (losses) revenues	**(441,571)**	**14,720,738**	**194,844**	**14,474,011**
Segment results	(441,571)	(13,358,194)	194,844	(13,604,921)
Share of results of associates	(241,527)	134,872	-	(106,655)
Depreciation / Amortization	-	(183,048)	-	(183,048)
Amortisation of intangible asset	-	(112,740)	-	(112,740)
Impairment of financial assets available for sale	(1,019,541)	-	-	(1,019,541)
Loss for the year	**(1,702,639)**	**(13,519,110)**	**194,844**	**(15,026,905)**
Assets and liabilities				
Segment assets	7,960,145	177,652,002	9,618,395	195,230,542
Investment in associates	1,952,686	3,507,523	-	5,460,209
Total assets	**9,912,831**	**181,159,525**	**9,618,395**	**200,690,751**
Segment liabilities	**-**	**170,752,578**	**4,655,906**	**175,408,484**
Other segmental information:				
Capital expenditure:	-	**23,485,090**	-	-

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18 SEGMENTAL INFORMATION (continued)

2010	*Investment KD*	*Real estate KD*	*Unallocated KD*	*Total KD*
Segment revenues (losses)	720,163	14,160,606	398,792	15,279,561
Segment results	720,163	(17,948,679)	398,792	(16,829,725)
Share of results of associates	(1,150,320)	143,151	-	(1,007,169)
Depreciation	-	(169,416)	-	(169,416)
Amortisation of intangible asset	-	(348,681)	-	(348,681)
Impairment of financial assets available for sale	(560,515)	-	-	(560,515)
(Loss) profit for the year	(990,672)	(18,004,564)	79,730	(18,915,506)
Assets and liabilities				
Segment assets	11,727,395	185,587,942	7,812,184	205,127,521
Investment in associates	2,219,424	3,372,651	-	5,592,075
Total assets	13,946,819	188,960,593	7,812,184	210,719,596
Segment liabilities	-	167,601,681	2,246,245	169,847,926
Other segmental information:				
Capital expenditure:	-	21,335,748	-	21,335,748

Secondary segment information

The Group operates in different geographical areas. A geographical analysis based on location of revenue, results, assets and liabilities based on location is as follows:

2011	***Kuwait KD***	***GCC KD***	***Total KD***
Segment revenues	**(246,727)**	**14,720,738**	**14,474,011**
Non-current assets	**19,042,436**	**154,710,441**	**173,752,877**

2010	*Kuwait KD*	*GCC KD*	*Total KD*
Segment revenues	799,893	13,090,273	13,890,166
Non-current assets	20,584,695	164,711,688	185,296,383

Non-current assets for this purpose consist of property and equipment, investment properties and amount due from related parties. Segment assets under Kuwait include goodwill of KD Nil (2010: KD 1,712,962) (Note 7).

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19 COMMITMENTS AND CONTINGENCIES

At 31 December 2011, the Group had commitments in respect of construction cost amounting to KD 2,320,639 2010: KD 3,448,524).

At 31 December 2011, the Group had contingent liabilities in respect of bank guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to KD 22,828 2010: KD 25,954).

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. Market risk is subdivided into interest rate risk, foreign currency risk and equity price risk. It is also subject to operational risks. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the Group's strategic planning process.

The management of the Parent Company is ultimately responsible for the overall risk management approach and for approving the risk strategies and principles.

The management of the Parent Company reviews and agrees policies for managing each of these risks which are summarised below.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Management of the Parent Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The maximum credit risk is limited to amounts appearing on the consolidated statement of financial position.

The Group has policies and procedures in place to limit the amount of credit exposure to any counter party.

Impaired and past due but not impaired financial assets of the Group are disclosed in note 11.

The Group's credit risk bearing financial assets, before taking into account any collateral held or credit enhancements can be analysed by industry wise sector as follows:

	2011	*2010*
	KD	*KD*
Industry sector:		
Banks and financial institutions	**8,553,071**	9,158,079
Construction and real estate	**19,244,616**	15,979,820
	27,797,687	25,137,899

Liquidity risk
Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management of the Parent Company has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. For the year ending 31 December 2012, funds may be required from the shareholders to meet the Group's liabilities.

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20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The table below summarises the maturity profile of the Group's undiscounted financial liabilities as at 31 December based on contractual undiscounted repayment obligations.

2011	***Within 3 months KD***	***3 to 6 months KD***	***6 to 12 months KD***	***Over 1 year KD***	***Total KD***
Obligations under finance leases	**-**	**-**	**111,555**	**3,011,985**	**3,123,540**
Murabaha payables	**44,490,855**	**10,162,457**	**21,747,311**	**-**	**76,400,623**
Accounts payable and accruals	**2,232,611**	**13,395,664**	**29,023,938**	**889,588**	**45,541,801**
Amounts due to related parties	**-**	**4,520,190**	**25,614,410**	**16,108,009**	**46,242,609**
TOTAL LIABILITIES	**46,723,466**	**28,078,311**	**76,497,214**	**20,009,582**	**171,308,572**
Commitments	**-**	**-**	**696,192**	**1,624,447**	**2,320,639**

2010	*Within 3 months KD*	*3 to 6 months KD*	*6 to 12 months KD*	*Over 1 year KD*	*Total KD*
Obligations under finance leases	-	-	112,380	3,146,640	3,259,020
Murabaha payables	46,330,533	4,398,375	20,478,908	3,565,636	74,773,452
Accounts payable and accruals	2,150,089	12,900,535	27,951,160	776,362	43,778,146
Amounts due to related parties	-	3,222,168	17,278,754	23,841,021	44,341,943
TOTAL LIABILITIES	48,480,622	20,521,078	65,821,202	31,329,659	166,152,561
Commitments	-	-	1,034,557	2,413,967	3,448,524

Market risk

Market risk is the risk that the value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

Market risk is managed on the basis of pre-determined financial instrument allocations across various asset categories, diversification of financial instruments in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Group is not exposed to profit rate risk as all its islamic financial instruments are at fixed profit rates.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The management of the Parent Company monitors the positions on a daily basis to ensure positions are maintained within established limits.

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20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Currency risk (continued)
The effect on results (due to change in the fair value of monetary assets and liabilities) and on other comprehensive income, as a result of 5% increase in foreign currency rate against KD, with all other variables held constant is shown below:

	Effect on results for the year		*Effect on other comprehensive income*	
	2011	*2010*	***2011***	*2010*
	KD	*KD*	***KD***	*KD*
United State Dollars	**(1,426,303)**	(1,444,774)	**263,933**	319,507
Saudi Riyals	**(29,434)**	(28,154)	**(13,805)**	163,424

Equity price risk
Equity price risk arises from the change in fair values of equity investments. The Group manages this risk though placing limits on individual and total equity investments.

The effect on Group's loss before KFAS, NLST and Zakat (as a result of a change in the fair value of financial assets carried at fair value through statement of income) due to a 5% increase in market indices, with all other variables held constant is as follows:

	Effect on loss	
	2011	*2010*
Market indices	***KD***	*KD*
Kuwait	**12,861**	21,183

As at 31 December 2011, the Group had no quoted available for sale equity investments (2010: Nil).

21 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder's value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the year ended 31 December 2011 and 31 December 2010.

The Group includes within net debt, murabaha payables, obligation under finance leases, accounts payables and accruals (excluding unearned revenue), amounts due to related parties less cash and cash equivalents as reported in the consolidated statement of financial position. Total capital represents equity attributable to the Parent Company less cumulative changes in fair values.

	2011	*2010*
	KD	*KD*
Murabaha payables	**75,220,216**	73,260,047
Obligations under finance leases	**1,710,260**	1,724,990
Accounts payable and accruals	**45,311,150**	43,620,908
Amounts due to related parties	**46,242,609**	44,341,943
Less: cash and cash equivalents	**(8,468,922)**	(6,691,962)
Net debt	**160,015,313**	156,255,926
Total capital	**25,697,441**	39,510,079
Net debt to equity ratio	**6.23**	3.96

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22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of financial assets available for sale, financial assets at fair value through statement of income, accounts receivables, and cash and cash equivalents. Financial liabilities consist of murabaha payables, obligations under finance leases and other payables.

The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (Note 9), are not materially different from their carrying values at the financial position date.

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

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

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

2011	***Level: 1 KD***	***Level: 2 KD***	***Level: 3 KD***	***Total KD***
Financial assets carried at fair value through statement of income				
Financial assets carried at fair value through statement of income	**152,201**	**-**	**-**	**152,201**
Financial assets available for sale:				
Unquoted securities	**-**	**-**	**2,759,767**	**2,759,767**
Managed funds	**-**	**2,386,872**	**-**	**2,386,872**
	152,201	**2,386,872**	**2,759,767**	**5,298,840**

2010	*Level: 1 KD*	*Level: 2 KD*	*Level: 3 KD*	*Total KD*
Financial assets carried at fair value through statement of income				
Financial assets carried at fair value through statement of income	250,684	-	-	250,684
Financial assets available for sale:				
Unquoted securities	-	-	3,552,721	3,552,721
Managed funds	-	2,648,825	-	2,648,825
	250,684	2,648,825	3,552,721	6,452,230

During the year ended 31 December 2011, there were no transfers between Level 1 and Level 2 financial instruments, and no transfers into and out of Level 3 financial instruments.

Movement in the Level 3 financial instruments is due to the fair valuation during the year ended 31 December 2011.