

**KUWAIT BUSINESS TOWN REAL
ESTATE COMPANY K.S.C. (CLOSED)
AND ITS SUBSIDIARIES**

**CONSOLIDATED FINANCIAL
STATEMENTS**

31 DECEMBER 2012



Ernst & Young
Al Aiban, Al Osaimi & Partners
P.O. Box 74 Safat
13001 Safat, Kuwait
Baitak Tower, 18-21st Floor
Safat Square
Ahmed Al Jaber Street
Tel : 2245 2880/2295 5000
Fax: 2245 6419
Email: kuwait@kw.ey.com
www.ey.com/me

RSM Albazie & Co.

Public Accountants

RSM Albazie & Co.

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT BUSINESS TOWN REAL ESTATE COMPANY K.S.C. (CLOSED)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Kuwait Business Town Real Estate Company K.S.C. (Closed) (the "Parent Company") and its subsidiaries (collectively the "Group") which comprise the consolidated statement of financial position as at 31 December 2012, 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

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

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

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

INDEPENDENT AUDITORS' REPORT The Shareholders of Kuwait Business Town Real Estate Company K.S.C. (Closed) (continued)**Basis of qualified opinion**

The consolidated financial statements of the Group include the financial statements of a subsidiary, United National Holding Company K.S.C. (Holding) ("UNHC"), with total assets of KD 58,109,858 (2011: KD 58,936,542) and net loss for the year of KD 3,598,039 (2011: KD 174,383). The aforesaid financial statements of UNHC for the year ended 31 December 2012 were audited by another auditor who has expressed an unqualified opinion dated 18 March 2013. We were unable to obtain access to the accounting records of UNHC for the purpose of obtaining sufficient appropriate audit evidence to satisfy ourselves on the amounts included in the consolidated financial statements related to UNHC. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the effects of the matter described in the 'Basis of Qualified Opinion' paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

As mentioned by the independent auditor of the subsidiary (UNHC) in their audit report, we draw attention to Note 20 to the consolidated financial statements relating to a going concern of UNHC and the uncertainty of the outcome of legal cases and its impact on the Group's financial position. Our opinion is not qualified in respect of these matters.

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, except for the limitations described in the "Basis for Qualified Opinion" paragraph above, we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012, and by the Parent Company's Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, nor of the Articles of Association, as amended, have occurred during the year ended 31 December 2012 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
ERNST & YOUNG
AL-AIBAN, AL-OSAIMI & PARTNERS



DR. SHUAIB A. SHUAIB
LICENCE NO. 33-A
RSM ALBAZIE & CO

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its
Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 KD	2011 KD
ASSETS			
Bank balances and cash	4	811,919	539,924
Investments at fair value through statement of income	5	10,134,562	15,447,786
Accounts receivable and prepayment		2,486,775	755,825
Investments available for sale	6	49,892,207	52,751,733
Investment properties	7	37,590,794	39,687,150
Property under development	8	13,000,000	15,500,000
Property and equipment		49,692	57,175
Total assets		113,965,949	124,739,593
LIABILITIES AND EQUITY			
Liabilities			
Short term loans and bank facilities	9	48,585,216	48,471,672
Accounts payable and accruals	10	7,773,054	4,355,692
Term loans	11	6,236,084	7,375,000
Total liabilities		62,594,354	60,202,364
Equity			
Share capital	12	78,568,800	78,568,800
Treasury shares	12	(162,406)	(162,406)
Statutory reserve	12	1,958,607	1,958,607
Voluntary reserve	12	1,958,607	1,958,607
Cumulative changes in fair values		4,106,304	4,827,540
Accumulated losses		(35,063,837)	(22,625,195)
Equity attributable to equity holders of the Parent Company		51,366,075	64,525,953
Non-controlling interests		5,520	11,276
Total equity		51,371,595	64,537,229
Total liabilities and equity		113,965,949	124,739,593



Yaser Haji Abulhasan
Chairman



Kuwait Business Town Real Estate Company K.S.C. (Closed) and its
Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2012

	<i>Notes</i>	2012 KD	2011 KD
REVENUE			
Rental income		1,946,628	1,049,059
Net investment income	13	1,328,435	1,518,340
Share of result of an associate		-	(1,881,489)
Impairment loss on investment in an associate		-	(914,261)
Gain on sale of investment in associates		-	3,578,425
Change in fair value of investment properties	7	(8,236,356)	(4,599,553)
Change in fair value of property under development	8	(2,500,000)	(9,902,564)
Loss on disposal of property and equipment		-	(37,247)
Loss on cancellation of a construction contract		-	(508,936)
Interest income		1,128	176
Other income		29,566	27,325
		<u>(7,430,599)</u>	<u>(11,670,725)</u>
EXPENSES			
General and administrative expenses		(905,751)	(831,387)
Finance costs		(4,106,969)	(2,704,677)
		<u>(5,012,720)</u>	<u>(3,536,064)</u>
LOSS FOR THE YEAR		<u>(12,443,319)</u>	<u>(15,206,789)</u>
Attributable to:			
Equity holders of the Parent Company		(12,438,642)	(15,206,562)
Non-controlling interests		(4,677)	(227)
		<u>(12,443,319)</u>	<u>(15,206,789)</u>
Basic and diluted loss per share attributable to equity holders of the Parent Company	14	<u>(15.85) fils</u>	<u>(19.38) fils</u>

The attached notes 1 to 20 form part of these consolidated financial statements.

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its
Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	<i>Note</i>	2012 KD	2011 KD
Loss for the year		(12,443,319)	(15,206,789)
Other comprehensive (loss) income:			
Investments available for sale:			
- Net change in fair values of investments available for sale		(1,321,251)	4,748,780
- Realised gain on sale of investments available for sale transferred to consolidated statement of income	13	(744,201)	(5,790,829)
- Impairment loss on investments available for sale transferred to consolidated statement of income	13	1,344,216	1,353,651
Fair value reserve movement of investment in an associate		-	9,650
Foreign currency translation adjustment		(1,079)	-
Other comprehensive (loss) income for the year		(722,315)	321,252
Total comprehensive loss for the year		(13,165,634)	(14,885,537)
Attributable to:			
Equity holders of the Parent Company		(13,159,878)	(14,886,133)
Non-controlling interests		(5,756)	596
		(13,165,634)	(14,885,537)

The attached notes 1 to 20 form part of these consolidated financial statements.

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	<i>Attributable to equity holders of the Parent Company</i>						<i>Non-controlling interests</i> KD	<i>Total equity</i> KD	
	<i>Share capital</i> KD	<i>Treasury shares</i> KD	<i>Statutory reserve</i> KD	<i>Voluntary reserve</i> KD	<i>Cumulative changes in fair values</i> KD	<i>Accumulated losses</i> KD			<i>Sub total</i> KD
As at 1 January 2012	78,568,800	(162,406)	1,958,607	1,958,607	4,827,540	(22,625,195)	64,525,953	11,276	64,537,229
Loss for the year	-	-	-	-	-	(12,438,642)	(12,438,642)	(4,677)	(12,443,319)
Other comprehensive loss for the year	-	-	-	-	(721,236)	-	(721,236)	(1,079)	(722,315)
Total comprehensive loss for the year	-	-	-	-	(721,236)	(12,438,642)	(13,159,878)	(5,756)	(13,165,634)
As at 31 December 2012	78,568,800	(162,406)	1,958,607	1,958,607	4,106,304	(35,063,837)	51,366,075	5,520	51,371,595
As at 1 January 2011	78,568,800	(162,406)	1,958,607	1,958,607	4,507,111	(7,418,633)	79,412,086	10,680	79,422,766
Loss for the year	-	-	-	-	-	(15,206,562)	(15,206,562)	(227)	(15,206,789)
Other comprehensive income for the year	-	-	-	-	320,429	-	320,429	823	321,252
Total comprehensive income (loss) for the year	-	-	-	-	320,429	(15,206,562)	(14,886,133)	596	(14,885,537)
As at 31 December 2011	78,568,800	(162,406)	1,958,607	1,958,607	4,827,540	(22,625,195)	64,525,953	11,276	64,537,229

The attached notes 1 to 20 form part of these consolidated financial statements.

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	<i>Notes</i>	2012 KD	2011 KD
OPERATING ACTIVITIES			
Loss for the year		(12,443,319)	(15,206,789)
Adjustments for:			
Net investment income	13	(1,328,435)	(1,518,340)
Share of result of an associate		-	1,881,489
Impairment loss on investment in an associate		-	914,261
Gain on sale of investment in an associate		-	(3,578,425)
Change in fair value of investment properties	7	8,236,356	4,599,553
Change in fair value of property under development	8	2,500,000	9,902,564
Loss on disposal of property and equipment		-	37,247
Interest income		(1,128)	(176)
Finance costs		4,106,969	2,704,677
Depreciation		18,596	21,557
		1,089,039	(242,382)
Changes in operating assets and liabilities:			
Accounts receivable and prepayment		(1,147,197)	1,280,749
Accounts payable and accruals		(168,331)	1,057,056
Net cash (used in) from operating activities		(226,489)	2,095,423
INVESTING ACTIVITIES			
Net movement in investments at fair value through statement of income		6,237,445	7,849,448
Proceeds from sale of investments available for sale		2,437,812	23,469,168
Purchase of investments available for sale		(2,025,200)	(15,369,224)
Investment in associates		-	(18,116,000)
Proceeds from sale of investment in an associate		-	59,608
Purchase of investment properties	7	(6,000,000)	(454,172)
Additions to properties under development		-	(776,800)
Proceeds from sale of property and equipment		-	2,410
Purchase of property and equipment		(11,113)	(49,724)
Interest income received		1,128	176
Dividend received		1,405,289	550,095
Net cash from (used in) from investing activities		2,045,361	(2,835,015)
FINANCING ACTIVITIES			
Repayment of short term loans and bank facilities		-	(504,488)
Receipt of short term loans and bank facilities		113,544	2,231,365
Repayment of term loans		(1,138,916)	(621,216)
Finance costs paid		(520,426)	(1,912,068)
Net cash used in financing activities		(1,545,798)	(806,407)
Foreign currency translation adjustment		(1,079)	823
NET INCREASE (DECREASE) IN BANK BALANCES AND CASH		271,995	(1,545,176)
Bank balances and cash at 1 January		539,924	2,085,100
BANK BALANCES AND CASH AT 31 DECEMBER	4	811,919	539,924

The attached notes 1 to 20 form part of these consolidated financial statements.

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

1 CORPORATE INFORMATION AND ACTIVITIES

The consolidated financial statements of the Kuwait Business Town Real Estate Company K.S.C. (Closed) (the “Parent Company”) and its subsidiaries (collectively the “Group”) were authorised for issue by the Board of Directors on 3 April 2013. The shareholders of the Parent Company have the power to amend these consolidated financial statements at Annual General Assembly.

The Parent Company was incorporated in Kuwait in 1999 as a limited liability company and was registered as a K.S.C. (Closed) Company on 24 November 2004. The Parent Company’s shares were listed in the Kuwait Stock Exchange on 16 December 2008. The Parent Company’s registered office is at KBT Tower 28th floor, Khalid Ebn Al Waleed Street, Kuwait.

The principal activities of the Parent Company are:

- Dealing in various real estate activities particularly the purchase, sale, leasing and renting of land and buildings.
- Construction of private and public buildings and projects directly or through others and sale of properties in cash or on installments and managing or renting properties in Kuwait and abroad.
- Sale and purchase of securities of companies carrying on similar activities.

2.1 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements 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 Companies Law issued on 26 November 2012 by Decree Law no. 25 of 2012 (the “Companies Law”), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No. 15 of 1960. According to article 2 of the Decree, the Parent Company has a period of 6 months from 29 November 2012 to regularise its affairs in accordance with the Companies Law.

Basis of measurement

The consolidated financial statements of the Group are prepared under the historical cost convention as modified for the revaluation at fair value of investments at fair value through statement of income, investments available for sale, investment properties and property under development.

Functional and presentation currency

The consolidated financial statements of the Group are presented in Kuwaiti Dinars (“KD”), which is the functional currency of the Parent Company.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except that the Group has adopted the following IASB Standards effective for the annual periods beginning on or after 1 January 2012.

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 the entity’s continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its consolidated financial statements.

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 7: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendment) (effective for annual periods beginning on or after 1 January 2013)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32: *Financial Instruments: Presentation*.

The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2015)

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39: *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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 not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10: Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses 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 to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12: Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013)

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, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13: Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 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. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IAS 1: Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment) (effective for annual periods beginning on or after 1 July 2012)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (“OCI”). Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Group’s financial position or performance.

IAS 28: Investments in Associates and Joint Ventures (Amendment) (effective for annual periods beginning on or after 1 January 2013)

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

IAS 32: Offsetting Financial Assets and Financial Liabilities (Amendment) (effective for annual periods beginning on or after 1 January 2014)

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group’s financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IAS 1: Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2013)

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16: Property Plant and Equipment (effective for annual periods beginning on or after 1 January 2013)

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32: Financial Instruments, Presentation (effective for annual periods beginning on or after 1 January 2013)

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

Additional disclosures will be made in the consolidated financial statements when these Standards become effective.

These improvements are effective for annual periods beginning on or after 1 January 2013.

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2012.

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 when such control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. The financial statements of subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interests even if it 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 interests;
- 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 consolidated statement of income;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to consolidated statement of income or retained earnings, as appropriate.

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

	<i>Effective equity interest</i>		<i>Country of incorporation</i>	<i>Principal activities</i>
	<i>2012</i>	<i>2011</i>		
Housing Cities Real Estate Company W.L.L.*	100%	100%	Kuwait	Real estate
KBT Projects for Project Management Company W.L.L.	100%	100%	Kuwait	Project Management
Dubai Business Town Real Estate Company W.L.L. **	-	100%	United Arab Emirates	Real estate
United National Holding Company K.S.C. (Holding) ("UNHC")	99.87%	99.87%	Kuwait	Investment

* During the previous year the Group started the liquidation process of Housing Cities Real Estate Company W.L.L. of which legal procedures are still pending finalisation.

** During the year ended 31 December 2012, the legal status of Dubai Business Town Real Estate Company W.L.L. was changed from 'limited liability company' to a 'branch' by name "KBT – Dubai Branch".

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 to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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 the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain 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 has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Financial assets and liabilities

The Group's financial assets consist of cash and cash equivalents, investments at fair value through statement of income, accounts receivable and investments available for sale. Financial liabilities consist of accounts payable and accruals and loans and other bank facilities.

Recognition and de-recognition of financial assets and liabilities

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset (in whole or in part) is derecognised either when: (i) the rights to receive the cash flows from the asset have expired or (ii) the Group has retained its right to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. Where the Group has transferred its right to receive cash flows from an asset 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.

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its Subsidiaries

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As at 31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and de-recognition of financial assets and liabilities (continued)

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 income.

Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, bank balances and short-term deposits with original maturities of three months or less.

Investments at fair value through statement of income

Investments at fair value through statement of income includes financial assets held for trading if they are acquired for the purpose of selling in the near term, or financial assets that 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. Investments at fair value through statement of income are initially measured at fair value (transaction price).

After initial recognition investments at fair value through statement of income are remeasured at fair value with all changes in fair value recognised in the consolidated statement of income.

Financial assets designated upon initial recognition at fair value through statement of income are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. An investment is designated by the management on initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or; if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy.

Investments available for sale

Investments available for sale are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through income statement, held to maturity investments or loans and receivables.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in investment income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available for sale reserve to the income statement in impairment loss on investments available for sale under investment income.

Fair value

For investments traded in an active market, fair value is determined by reference to quoted market bid prices at the close of business on the reporting date.

For mutual fund investments, fair value is determined based on net asset values reported by the fund managers.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by using valuation techniques, such as recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, an earnings multiple, or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

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As at 31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value (continued)

Investments with no reliable measures of their fair values and for which no fair value information could be obtained are carried at their initial cost less impairment in value.

An analysis of fair value of financial instruments and further details as to how they are measured are provided in Note 19.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be 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 have loss event (or events) has an impact on the estimated future cash flows of the financial assets or the group of financial assets that can be reliably estimated. If such evidence or indication exists, any impairment loss is recognised in the consolidated statement of income.

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previous recognised in the consolidated statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- (c) For assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the financial asset no longer exist or have decreased and the decrease can be related objectively to an event occurring after the impairment was recognised. Except for investments classified as available for sale, reversals of impairment losses are recognised in the consolidated statement of income to the extent the carrying value of the asset does not exceed its amortised cost at the reversal date. Reversals in respect of investments classified as available for sale are recognised in other comprehensive income.

Investment properties

Investment properties comprise completed property and property under construction or re-development held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment properties when the definition of investment properties is met and it is accounted for as a finance lease.

Investment properties are measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of existing investment properties at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment properties is stated at fair value. Gains or losses arising from changes in the fair values are included in the consolidated statement of income in the year in which they arise. For the purposes of these consolidated financial statements the assessed fair value is:

- Reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or minimum lease payments.
- Increased by the carrying amount of any liability to the holder of leasehold or freehold property included in the consolidated statement of financial position as a finance lease obligation.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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

Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period consolidated financial statements.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Property under development

Property under development represent properties being developed for future use as investment properties and are stated at fair value. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost.

Property and equipment

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

Depreciation is calculated on a straight line basis over the estimated useful lives of 5 years.

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. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings

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

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

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

Provisions

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

Treasury shares

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, "treasury shares reserve", which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings and then to the statutory and voluntary reserves. Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of stock dividend increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenues and incurs costs. The operating segments are used by the management of the Group to allocate resources and assess performance is consistent with the internal reports provided to the chief operation decision maker. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

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 or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria 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 specific recognition criteria described below must also be met before revenue is recognised.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature.

Interest income

Interest income is recognised as the interest accrues using the effective interest method, over the period of the related deposit.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Foreign Currencies

The Group's consolidated financial statements are presented in KD, which is also the Parent Company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. 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 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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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 spot rate of exchange at the reporting date.

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign Currencies (continued)

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into KD at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation 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 consolidated statement of income.

Contingencies

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

Significant accounting judgments and estimates

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Group has used judgment and estimates principally in, but not limited to, the following:

Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of income.

Classification of financial assets and liabilities

Judgments are made in the classification of financial instruments as “investments at fair value through statement of income” or “investment available for sale” based on management’s intention at acquisition as described in the respective accounting policies.

Valuation of unquoted equity 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.

Impairment of accounts receivable

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

Valuation of investment properties

Fair value of investment property has been assessed by an independent real estate appraiser. Two main methods were used to determine the fair value of property interests in investment properties; (a) formula based discounted cash flow analysis and (b) comparative analysis as follows:

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments and estimates (continued)

Classification of land

Judgments are made in the classification of land as “properties under development” or “investment properties” based on management’s intention at acquisition as described in the respective accounting policies.

Impairment of investments available for sale

The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires considerable judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Impairment of property and equipment

A decline in the value of property and equipment could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value beyond that which would be expected from the passage of time or normal use;
- significant changes in the technology and regulatory environments; and
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

Useful lives of property and equipment

Management assigns useful lives to property and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives differing from initial estimates.

4 BANK BALANCES AND CASH

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
Bank balances and cash	532,671	461,213
Cash balance in managed portfolios	279,248	78,711
	811,919	539,924

Kuwait Business Town Real Estate Company K.S.C. (Closed) and its
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2012

5 INVESTMENTS AT FAIR VALUE THROUGH STATEMENT OF INCOME

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
Held for trading:		
Quoted equity securities	16,677	19,711
Managed funds	134,755	132,260
Managed portfolios of quoted equity securities	7,621,175	7,104,055
Designated:		
Unquoted equity securities	2,348,864	8,156,864
Managed funds	13,091	34,896
	10,134,562	15,447,786

Managed portfolios of equity securities amounting to KD 7,403,057 (2011: KD 6,455,025) are pledged against short term loans and bank facilities (Note 9).

Investments with aggregate carrying amount of KD Nil (2011: KD 9,336,119) are managed by a related party (Note 15).

The fair value of unquoted equity securities is determined by the investment manager using valuation techniques that are based on recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, an earnings multiple, or is based on the expected cash flows of the investment discounted at current rates applicable for items with similar terms and risk characteristics. Fair value estimates take into account liquidity constraints and assessment for any impairment.

6 INVESTMENTS AVAILABLE FOR SALE

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
Quoted equity securities	1,548	24,893
Unquoted equity securities	2,323,379	3,671,264
Managed portfolios of equity securities:		
- Quoted	2,679,682	4,297,601
- Unquoted	44,887,598	44,757,975
	49,892,207	52,751,733

As at 31 December 2012, investments available for sale ('unquoted equity securities' and 'managed portfolio of unquoted equity securities') amounting to KD 47,210,977 (2011: KD 46,891,884) were carried at cost less impairment loss, due to the non availability of quoted market prices or other reliable measures of their fair values. There is no active market for these financial assets and the Group intends to hold them for long term. Management has performed an impairment testing of its unquoted equity securities to assess whether impairment has occurred in the value of these investments.

An impairment charge of KD 1,344,216 (2011: KD 1,353,651) (Note 13) has been recognised in respect of certain financial assets available for sale for which there has been a significant or prolonged decline in fair value below cost. Except this, the management is not aware of any circumstances that would indicate any impairment in the value of the above financial assets as of the reporting date.

Included in managed portfolios of equity securities is an amount of KD 42,632,152 (2011: KD 44,116,817) which represents investments pledged against short term loans and bank facilities (Note 9).

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As at 31 December 2012

6 INVESTMENTS AVAILABLE FOR SALE (continued)

Included in unquoted equity securities is an amount of KD 4,428,147 (2011: KD 4,271,513) which represents investments pledged against other payables.

Investments with aggregate carrying amount of KD Nil (2011: KD 45,216,465) are managed by a related party (Note 15).

During the year ended 31 December 2011, one of the subsidiaries of the Parent Company, UNHC, acquired unquoted equity securities in a related party amounting to KD 34,800,000 from a related party (Note 15) by transferring certain investments available for sale amounting to KD 13,200,000 and investment in an associate, Sharq Investment Company K.S.C. (Closed) ("Sharq Investment"), amounting to KD 21,600,000 (Note 15). As a result of this, during the year ended 31 December 2011 the Group recognised a gain on sale of investments available for sale KD 2,640,000 (Note 15) and gain on sale of investment in an associate KD 3,631,887 (Note 15) in the consolidated statement of income.

7 INVESTMENT PROPERTIES

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
As at 1 January	39,687,150	5,226,000
Transfer from properties under development (Note 8)	-	38,606,531
Additions (see below)	6,140,000	454,172
Change in fair value	(8,236,356)	(4,599,553)
As at 31 December	<u>37,590,794</u>	<u>39,687,150</u>

Investment properties amounting to KD 27,288,000 (2011: KD 29,982,537) are pledged with a financial institution against term loan (Note 11).

The fair value of the investment properties has been determined based on valuations obtained from two independent valuers, who are an industry specialised in valuing these types of investment properties. One of these valuers is a local bank who has valued the investment properties using Yield Method and the other is a local reputable accredited valuer who has valued the investment properties using the combination of the market comparison approach for the land and cost approach for the construction work executed to date. For the valuation purpose, the Parent Company has selected the lower of these two valuations, (2011: average of two valuations) as required by the Capital Market Authority (CMA).

The significant assumptions used in the valuations are set out below:

2012	<i>Kuwait</i>	<i>GCC</i>
Estimated market price for the land (per sqm) (KD)	2,552	289
Construction costs (per sqm) (KD)	2,447	917
Average monthly rent (per sqm) (KD)	20	8
Yield rate	6.26%	7.70%
Vacancy rate	4%	3%
2011		
Estimated market price for the land (per sqm) (KD)	2,553	1,180
Construction costs (per sqm) (KD)	2,868	1,185
Average monthly rent (per sqm) (KD)	14	2
Yield rate	6.53%	1.29%
Vacancy rate	7%	55%

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As at 31 December 2012

7 INVESTMENT PROPERTIES (continued)

Sensitivity analysis

The table below presents the sensitivity of the valuation to changes in the most significant assumptions underlying the valuation of the investment properties.

	<i>Changes in valuation assumptions</i>	<i>Kuwait</i>	<i>GCC</i>
		<i>KD</i>	<i>KD</i>
2012			
Estimated market price for the land	+/- 5%	833,250	59,290
Average rent	+/- 5%	(6,177,698)	(94,353)
Yield rate	+/- 5%	8,638,191	374,418
Vacancy rate	+/- 5%	8,698,203	385,851
2011			
Estimated market price for the land	+/- 5%	706,000	242,030
Average rent	+/- 5%	(15,023,442)	15,128
Yield rate	+/- 5%	16,414,197	915,964
Vacancy rate	+/- 5%	16,448,118	937,936

During the year, the Parent Company acquired a local investment property for a total consideration of KD 6,140,000 from a related party (Note 15) which was settled partially through cash consideration of KD 6,000,000 and partially through transfer of certain investments at fair value through statement of income of KD 140,000 (carrying value of KD 120,000). Ownership in this property is registered in the name of a related party, as nominee for the Parent Company. This nominee have confirmed in writing that the Parent Company is the beneficial owner of this property.

8 PROPERTY UNDER DEVELOPMENT

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
As at 1 January	15,500,000	63,232,295
Development costs	-	776,800
Change in fair value	(2,500,000)	(9,902,564)
Transfer to investment properties (Note 7)	-	(38,606,531)
As at 31 December	<u>13,000,000</u>	<u>15,500,000</u>

Property under development with carrying value of KD 13,000,000 (2011: KD 15,500,000) are pledged with a local bank against short term loans and bank facilities (Note 9).

The fair value of the property under development has been determined based on valuations obtained from two independent valuers, who are an industry specialised in valuing these types of properties. One of these valuers is a local bank who has valued the properties under development using Yield Method and the other is a local reputable accredited valuer who has valued the property under development using the combination of the market comparison approach for the land and cost approach for the construction work executed to date. For the valuation purpose, the Parent Company has selected the lower of these two valuations, (2011: average of two valuations) as required by the CMA.

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As at 31 December 2012

9 SHORT TERM LOANS AND BANK FACILITIES

	<i>Currency</i>	2012 <i>KD</i>	2011 <i>KD</i>
Bank facilities obtained from a local bank carrying an interest rate of 1.75% (2011: 1.75%) per annum over the CBK discount rate and were repayable on 29 December 2010.	KD	46,240,307	46,240,307
Bank facilities obtained from a local bank carrying an interest rate of 4% (2011: 4%) per annum over the CBK discount rate and were repayable on 29 December 2010.	KD	2,344,909	2,231,365
		<u>48,585,216</u>	<u>48,471,672</u>

Short term loans and bank facilities relate to the subsidiary, UNHC, and are secured by investments at fair value through statement of income of KD 7,403,057 (2011: KD 6,455,025) (Note 5), investments available for sale of KD 42,632,152 (2011: KD 44,116,817) (Note 6) and property under development of KD 13,000,000 (2011: KD 15,500,000) (Note 8). As at the reporting date, banks facilities had become past due and the bank referred the matter to the Ministry of Justice to recover its dues. During the current year the local bank initiated procedures to liquidate the collateral; however, the liquidation has been suspended subject to outstanding legal case filed by the UNHC against the bank. The management is currently engaged in discussion with the bank regarding the restructuring of the credit facilities (Note 20).

10 ACCOUNTS PAYABLE AND ACCRUALS

	2012 <i>KD</i>	2011 <i>KD</i>
Trade payables and retention to contractors	1,004,149	2,096,879
Accrued expenses and provisions	223,551	200,534
Interest and dividend payable	5,317,201	792,438
Advance rent	101,931	87,446
Other payables	1,126,222	1,178,395
	<u>7,773,054</u>	<u>4,355,692</u>

11 TERM LOANS

	<i>Currency</i>	2012 <i>KD</i>	2011 <i>KD</i>
Term loan granted by a local bank with interest rate of 6.48% (2011: 6.48%) per annum, repayable in 72 equal monthly installments after a grace period of 2 years started from 1 February 2010.	KD	4,236,084	5,000,000
Term loan granted by a financial institution, a related party (Note 15), with interest rate of 7.5% (2011: 7.5%) per annum, repayable in 48 equal monthly installments started from 16 March 2011.	KD	2,000,000	2,375,000
		<u>6,236,084</u>	<u>7,375,000</u>

Investment properties amounting to KD 27,288,000 (2011: KD 29,982,537) are pledged with a financial institution against this term loan (Note 7).

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12 EQUITY

a) Share capital

Authorised, issued and paid-up capital consists of 785,688,000 shares (2011: 785,688,000 shares) of 100 fils (2011: 100 fils) each. This consists of 520,000,000 (2011: 520,000,000) shares which are fully paid in cash, 26,000,000 (2011: 26,000,000) shares which are issued as bonus shares and 239,688,000 (2011: 239,688,000) shares were issued for acquisition of 99.87% equity interest in UNHC.

b) Treasury shares

	<i>2012</i>	<i>2011</i>
Number of treasury shares	1,030,000	1,030,000
Percentage of ownership	0.13%	0.13%
Market value (KD)	25,235	29,355
Cost (KD)	162,406	162,406

c) Statutory reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% of the profit for the year before contribution to KFAS, Zakat and Board of Director's remuneration is required to be transferred annually to the statutory reserve. The Parent Company may resolve to discontinue such annual transfers, when the reserve equals 50% of share capital. No transfer has been made since the Group has incurred losses during the year.

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 accumulated profits are not sufficient for the payment of a dividend of that amount.

d) Voluntary reserve

In accordance with the Parent Company's articles of association, 10% of the profit for the year before contribution to KFAS, Zakat and Board of Director's remuneration is required to be transferred to voluntary reserve. No such transfer has been made since the Group has incurred losses during the current year. Such annual transfers may be discontinued by a resolution of the Parent Company's shareholders' general assembly upon a recommendation by the Board of Directors. Voluntary reserve is available for distribution.

13 NET INVESTMENT INCOME

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
Unrealised gain (loss) from investments at fair value through statement of income	128,493	(1,910,419)
Realised gain (loss) on sale of investments at fair value through statement of income	935,728	(1,558,514)
Realised gain on sale of investments available for sale	744,201	5,790,829
Impairment loss on investments available for sale (Note 6)	(1,344,216)	(1,353,651)
Dividend income	864,229	550,095
	<u>1,328,435</u>	<u>1,518,340</u>

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14 BASIC AND DILUTED LOSS PER SHARE

Basic and diluted loss per share is calculated by dividing the loss for the year attributable to the equity holders of the Parent Company by the weighted average number of outstanding shares during the year.

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Loss for the year attributable to the equity holders of the Parent Company	<u>(12,438,642)</u>	<u>(15,206,562)</u>
	<i>Shares</i>	<i>Shares</i>
Number of outstanding shares at the beginning of the year	785,688,000	785,688,000
Less: Weighted average number of treasury shares	<u>(1,030,000)</u>	<u>(1,030,000)</u>
Weighted average number of outstanding shares	<u>784,658,000</u>	<u>784,658,000</u>
Basic and diluted loss per share attributable to the equity holders of the Parent Company	<u>(15.85) fils</u>	<u>(19.38) fils</u>

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15 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Balances and transactions with related parties are as follows:

	<i>Key management personnel</i>	<i>Other related parties</i>	<i>Total 2012 KD</i>	<i>Total 2011 KD</i>
<i>Consolidated statement of financial position:</i>				
Investments at fair value through statement of income (managed by a related party) (Note 5)	-	-	-	9,336,119
Investments at fair value through statement of income	-	4,851,660	4,851,660	-
Investments available for sale (managed by a related party) (Note 6)	-	-	-	45,216,465
Investments available for sale	-	120,611	120,611	-
Due from related parties	-	-	-	49,708
Term loan (Note 11)	-	2,000,000	2,000,000	2,375,000
<i>Consolidated statement of income:</i>				
Rental income	-	63,236	63,236	63,236
Realised gain (loss) on sale of investments at fair value through statement of income	-	18,998	18,998	(1,557,045)
Dividend income	-	551,325	551,325	441,060
Gain on sale of investment in an associate	-	-	-	3,631,887
Gain on sale of investments available for sale	-	22,393	22,393	2,640,000
General and administrative expenses	-	-	-	(97,247)
Finance costs	-	225,000	225,000	93,750
<i>Transactions:</i>				
Purchase of investment in an associate	-	-	-	18,116,000
Purchase of investment available for sale (Note 6) – non cash transaction	-	-	-	34,800,000
Sale of investment in an associate (Note 6) – non cash transaction	-	-	-	21,600,000
Sale of investment available for sale (Note 6) – non cash transaction	-	-	-	13,200,000
Sale of investment available for sale	-	432,000	432,000	-
Purchase of investment properties	-	6,140,000	6,140,000	-

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15 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year are as follows:

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Salaries and short-term benefits	65,366	64,863
Employees' end of service benefits	3,320	16,684
	<u>68,686</u>	<u>81,547</u>

16 CAPITAL COMMITMENTS

	<i>2012</i> <i>KD</i>	<i>2011</i> <i>KD</i>
Future capital expenditure relating to properties under development	11,500,000	11,500,000

17 SEGMENT INFORMATION

For management reporting purposes, the Group is organised into two major operating segments based on internal reporting provided to the chief operating decision maker. The Group does not have material inter-segment transactions. The principal activities and services under these segments are as follows:

- Investing activities : comprise participation in financial and real estate funds and managing the Group's liquidity requirements.
- Real estate activities : comprise investment and trading in real estate and construction or development of real estate for the sale in the ordinary course of business and other related real estate services.

	<i>2012</i>			<i>2011</i>		
	<i>Investing activities</i> <i>KD</i>	<i>Real estate activities</i> <i>KD</i>	<i>Total</i> <i>KD</i>	<i>Investing activities</i> <i>KD</i>	<i>Real estate activities</i> <i>KD</i>	<i>Total</i> <i>KD</i>
Segment results	(3,609,370)	(8,833,949)	(12,443,319)	(156,130)	(15,050,659)	(15,206,789)
Segment assets	58,109,858	55,856,091	113,965,949	58,942,648	65,796,945	124,739,593
Segmental liabilities	53,863,998	8,730,356	62,594,354	50,262,887	9,939,477	60,202,364
Addition to non-current assets	-	6,140,000	6,140,000	-	1,230,972	1,230,972

Additions to non-current assets consist of additions of investment properties and properties under development.

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18 RISK MANAGEMENT

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, the latter being subdivided into interest rate risk, currency risk and equity price risk. 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.

18.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation as it falls due and cause the other party to incur a financial loss.

The Group has policies and procedures in place to limit the amount of credit exposure to any counter party. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with individual counterparties, and continually assessing the creditworthiness of counterparties.

The Group is exposed to credit risk on its bank balances and accounts receivable. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Gross maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk across financial assets before taking into consideration the effect of credit risk mitigation.

	<i>2012</i>	<i>2011</i>
	<i>KD</i>	<i>KD</i>
Bank balances and cash balance in managed portfolio	811,688	539,789
Accounts receivables and prepayments	2,486,775	755,825
Total credit risk exposure	<u>3,298,463</u>	<u>1,295,614</u>

Risk concentrations of the maximum exposure to credit risk:

The Group's financial assets, before taking into account any collateral held or other credit enhancements, can be analysed by the following:

Geographic region and industrial sector:

2012

	<i>Banking</i>	<i>Investments</i>	<i>Other</i>	<i>Total</i>
Kuwait	<u>532,670</u>	<u>1,955,461</u>	<u>810,332</u>	<u>3,298,463</u>

2011

	<i>Banking</i>	<i>Investments</i>	<i>Other</i>	<i>Total</i>
Kuwait	<u>461,079</u>	<u>642,917</u>	<u>191,618</u>	<u>1,295,614</u>

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18 RISK MANAGEMENT (continued)

18.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk is managed by the finance department of the Company. To manage this risk, the Group invests in bank deposits or other investments that are readily realisable. The maturity profile is monitored by finance department to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The liquidity profile of financial liabilities at 31 December was as follows:

31 December 2012	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
Short term loans and bank facilities	49,310,891	-	-	49,310,891
Accounts payable and accruals	4,528,105	2,525,844	719,105	7,773,054
Term loans	915,491	1,600,739	5,224,801	7,741,031
TOTAL LIABILITIES	54,754,487	4,126,583	5,943,906	64,824,976
31 December 2011	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>Total KD</i>
Short term loans and bank facilities	49,104,001	-	-	49,104,001
Accounts payable and accruals	1,787,588	102,000	2,466,104	4,355,692
Term loans	553,322	1,641,062	7,296,587	9,490,971
TOTAL LIABILITIES	51,444,911	1,743,062	9,762,691	62,950,664

18.3 Market risk

Market risk is the risk that the value of an asset 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 investments traded in the market.

18.3.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. Interest rate risk is managed by the finance department of the Company. The Group is exposed to interest rate risk on its interest bearing assets and liabilities which includes short term loans and bank facilities and term loans.

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18 RISK MANAGEMENT (continued)

18.3.1 Interest rate risk (continued)

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

	<i>Increase in basis points</i>	<i>Effect on loss for the year KD</i>
31 December 2012	±50	±274,107
31 December 2011	±50	±279,234

18.3.2 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk is managed by the treasury department on the basis of limits determined by the Company's Board of Directors and by continuous assessment of the Group's open positions and current and expected exchange rate movements. Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Group does not hedge foreign currency exposures.

18.3.3 Equity price risk

Equity price risk arises from changes in the fair values of equity investments. The unquoted equity price risk exposure arises from the Group's investment portfolio. The Group manages this through diversification of investments in terms of geographical distribution and industry concentration. The majority of the Group's investments are in unquoted equity securities.

The effect on Group's loss and equity as a result of a change in the fair value of the investments at fair value through statement of income and investments available for sale at 31 December 2012 due to 5% change in Kuwait Stock Exchange, with all variables held constant is as follows:

	<i>Changes in indices</i>	<i>2012 KD</i>	<i>2011 KD</i>
Effect on loss	±5%	±381,893	± 49,775
Effect on other comprehensive income	±5%	±134,062	±138,336

The Group also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, which is when the consolidated statement of income will be impacted.

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19 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities as defined in note 3

The fair values of financial instruments with the exceptions of certain investments available for sale carried at cost (Note 6) are not materially different from their carrying values. For financial assets and financial liabilities that are liquid or having a short term maturity (less than twelve months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to variable rate financial instruments.

Fair value hierarchy

As at 31 December 2012, the Group held the following financial instruments measured at fair value. 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: techniques which use inputs that have a significant effect on the recorded fair value are not based on observable market data.

2012	<i>Level: 1</i> <i>KD</i>	<i>Level: 2</i> <i>KD</i>	<i>Total</i> <i>KD</i>
<i>Investments at fair value through statement of income</i>			
Equity securities	7,637,852	2,348,864	9,986,716
Managed funds	-	147,846	147,846
	<u>7,637,852</u>	<u>2,496,710</u>	<u>10,134,562</u>
<i>Investments available for sale</i>			
Equity securities	<u>2,681,230</u>	-	<u>2,681,230</u>
	<i>Level: 1</i> <i>KD</i>	<i>Level: 2</i> <i>KD</i>	<i>Total</i> <i>KD</i>
2011			
<i>Investments at fair value through statement of income</i>			
Equity securities	7,123,766	8,156,864	15,280,630
Managed funds	-	167,156	167,156
	<u>7,123,766</u>	<u>8,324,020</u>	<u>15,447,786</u>
<i>Investments available for sale</i>			
Equity securities	4,322,494	-	4,322,494
Managed funds	-	1,537,355	1,537,355
	<u>4,322,494</u>	<u>1,537,355</u>	<u>5,859,849</u>

During the year, there were no transfers between the hierarchies.

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20 GOING CONCERN OF A SUBSIDIARY

The subsidiary, UNHC, incurred a net loss of KD 3,598,039 for the year ended 31 December 2012 (2011: KD 174,383). The accumulated losses as of 31 December 2012 amounted to KD 3,598,039 (2011: KD 28,717,448) which represents 92.63% of the subsidiary's capital. According to the Article No. 302 of Companies Law No. 25 for the year 2012, if a shareholding Company loses 75% of its capital, the Board of Directors should call extraordinary General Assembly Meeting to take an appropriate decision about the going concern issue.

Also as at 31 December 2012, the subsidiary had past due bank facilities (short term loans and bank facilities) amounting to KD 48,378,326 (2011: 48,378,326) with one of the local banks and there are lawsuits filed against the subsidiary in this regard (Note 9). Further, during the current year the local bank initiated procedures to liquidate the collateral; however, the liquidation has been suspended subject to outstanding legal case filed by the UNHC against the bank. There is an uncertainty related to the outcome of the lawsuits.

These conditions are considered as an indication to the existence of a substantial doubt about the subsidiary's ability to continue as a going concern. The Parent Company is only liable for losses equal to the contributed share capital of the subsidiary amounting to KD 3,880,163.

The management is currently engaged in discussion with the bank regarding the restructuring of the credit facilities and is confident that the above issues will be solved and as a consequence these consolidated financial statements have been prepared on a going concern basis.