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**Consolidated financial statements and independent auditors' report  
National Industries Company – KSC (Closed) and Subsidiaries  
Kuwait**

**31 December 2012**

Consolidated financial statements and independent auditors' report  
**National Industries Company – KSC (Closed) and Subsidiaries**  
**Kuwait**

31 December 2012

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## Independent auditors' report

To the shareholders of  
National Industries Company – KSC (Closed)  
Kuwait

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Industries Company – Kuwait Shareholding Company (Closed) and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and 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 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' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of National Industries Company – KSC (Closed) and its subsidiaries as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

## **Report on Other Legal and Regulatory Matters**

In our opinion, proper books of account have been kept by the Company and the consolidated financial statements, together with the contents of the report of the 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 that the consolidated financial statements incorporate all information that is required by the Companies Law No. 25 of 2012 and by the 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 Company's articles of association, as amended, have occurred during the year that might have had a material effect on the business or financial position of the Company.

Abdullatif M. Al-Aiban (CPA)  
(Licence No. 94-A)  
of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Abdullatif A.H. Al-Majid  
(Licence No. 70-A)  
of Parker Randall (Allied Accountants)

Kuwait  
21 February 2013

## Consolidated statement of income

	Notes	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
<b>Revenue</b>			
Revenue from sales and services	8	42,184,930	40,319,712
Cost of sales and services		(30,268,893)	(28,811,685)
<b>Gross profit</b>		<b>11,916,037</b>	<b>11,508,027</b>
Other operating income	9	714,042	818,408
Share of results of associates	13	(709,828)	(689,405)
Loss from acquisition of associate	13	-	(55,396)
Investment income	10	363,775	187,711
Foreign exchange gain		3,532	162,654
		<b>12,287,558</b>	<b>11,931,999</b>
<b>Expenses and other changes</b>			
Distribution expenses		(776,697)	(770,478)
General, administrative and other expenses		(3,426,085)	(2,493,918)
Finance costs		(541,024)	(537,976)
Impairment of available for sale investments	14	(2,336,905)	(3,650,895)
Impairment of investment in associate	13	(250,000)	-
<b>Profit before contribution to KFAS, NLST, Zakat and Directors' remuneration</b>		<b>4,956,847</b>	<b>4,478,732</b>
Provision for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(47,715)	(40,309)
Provision for National Labour Support Tax (NLST)		(137,988)	(119,719)
Provision for Zakat		(55,195)	(47,286)
Provision for Directors' remuneration		(35,000)	(35,000)
<b>Profit for the year</b>		<b>4,680,949</b>	<b>4,236,418</b>
<b>Attributable to :</b>			
Owners of the parent company		5,025,725	4,236,418
Non-controlling interests		(344,776)	-
<b>Profit for the year</b>		<b>4,680,949</b>	<b>4,236,418</b>
<b>Basic and diluted earnings per share attributable to the owners of the parent company</b>			
	11	14.55 Fils	12.29 Fils

The notes set out on pages 10 to 43 form an integral part of these consolidated financial statements.



## Consolidated statement of comprehensive income

	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
Profit for the year	4,680,949	4,236,418
<b>Other comprehensive income:</b>		
Available for sale investments:		
- Net losses arising during the year	(1,362,612)	(6,176,960)
- Transferred to consolidated statement of income on impairment	2,336,905	3,650,895
- Transferred to consolidated statement of income on sale	(59,768)	(8,000)
Exchange differences from translation of foreign operations	16,617	(43,952)
Share of other comprehensive income of associates	23,143	15,922
Total other comprehensive income/(loss)	954,285	(2,562,095)
<b>Total comprehensive income for the year</b>	<b>5,635,234</b>	<b>1,674,323</b>
Total comprehensive income attributable to:		
Owners of the parent company	5,980,010	1,674,323
Non-controlling interests	(344,776)	-
	<b>5,635,234</b>	<b>1,674,323</b>



## Consolidated statement of financial position

	Notes	31 Dec. 2012 KD	31 Dec. 2011 KD
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	23,867,840	26,623,894
Investment in associates	13	5,840,108	6,842,977
Available for sale investments	14	42,699,519	41,274,261
		<b>72,407,467</b>	<b>74,741,132</b>
<b>Current assets</b>			
Inventories and spare parts	15	14,863,204	11,686,204
Investments at fair value through statement of income	16	3,492,120	4,181,001
Accounts receivable and other assets	17	14,132,689	15,645,680
Fixed deposit	25	150,000	150,000
Cash and bank balances		6,114,488	2,814,244
		<b>38,752,501</b>	<b>34,477,129</b>
<b>Total assets</b>		<b>111,159,968</b>	<b>109,218,261</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	18	34,620,187	34,620,187
Share premium	18	31,923,740	31,923,740
Treasury shares	19	(6,440)	(570,630)
Legal reserve	20	2,988,017	2,457,855
Voluntary reserve	20	1,405,196	875,034
Other components of equity	21	5,928,745	5,010,828
Retained earnings		4,254,020	3,809,672
<b>Total equity attributable to the owners of the parent company</b>		<b>81,113,465</b>	<b>78,126,686</b>
Non-controlling interests		1,655,224	2,000,000
<b>Total equity</b>		<b>82,768,689</b>	<b>80,126,686</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long term loan	22	1,902,446	7,203,696
Murabaha payables	23	-	16,885
Provision for land-fill expenses		709,571	680,871
Provision for staff indemnity		4,418,543	4,030,176
		<b>7,030,560</b>	<b>11,931,628</b>
<b>Current liabilities</b>			
Short term murabaha	23	6,639,164	3,056,970
Current portion of long term loan	22	5,341,250	5,301,250
Current portion of murabaha payables	23	16,885	18,420
Accounts payable and other liabilities	24	9,363,420	8,783,307
		<b>21,360,719</b>	<b>17,159,947</b>
<b>Total liabilities</b>		<b>28,391,279</b>	<b>29,091,575</b>
<b>Total equity and liabilities</b>		<b>111,159,968</b>	<b>109,218,261</b>

Dr. Adel Khaled Al Sbaeh  
Chairman and Managing Director



The notes set out on pages 10 to 43 form an integral part of these consolidated financial statements.



## Consolidated statement of changes in equity

	Equity attributable to the owners of the parent company					Non-controlling interests		Total
	Share capital KD	Share premium KD	Treasury shares KD	Legal reserve KD	Voluntary reserve KD	Other components of equity (note 21) KD	Retained earnings KD	Sub-total KD
Balance at 1 January 2012	34,620,187	31,923,740	(570,630)	2,457,855	875,034	5,010,828	3,809,672	78,126,686
Payment of cash dividends (note 27)	-	-	-	-	-	-	(3,451,499)	(3,451,499)
Purchase of treasury shares	-	-	(103,798)	-	-	-	-	(103,798)
Sale of treasury shares	-	-	667,988	-	-	(36,368)	(69,554)	562,066
Transactions with owners	-	-	564,190	-	-	(36,368)	(3,521,053)	(2,993,231)
Profit for the year	-	-	-	-	-	-	5,025,725	5,025,725
Other comprehensive income for the year	-	-	-	-	-	954,285	-	954,285
Total comprehensive income/(loss) for the year	-	-	-	-	-	954,285	5,025,725	5,980,010
Transfer to reserves	-	-	-	530,162	530,162	-	(1,060,324)	-
Balance at 31 December 2012	34,620,187	31,923,740	(6,440)	2,988,017	1,405,196	5,928,745	4,254,020	81,113,465
								1,655,224
								82,768,689



The notes set out on pages 10 to 43 form an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity (continued)

	Equity attributable to the owners of the parent company						Non-controlling interests		Total
	Share capital KD	Share premium KD	Treasury shares KD	Legal reserve KD	Voluntary reserve KD	Other components of equity (note 21) KD	Retained earnings KD	Sub-total KD	
<b>Balance at 1 January 2011</b>	34,620,187	31,923,740	(567,324)	2,009,982	427,161	7,572,923	3,227,519	79,214,188	2,000,000 81,214,188
Payment of cash dividends (note 27)	-	-	-	-	-	-	(2,758,519)	(2,758,519)	- (2,758,519)
Purchase of treasury shares	-	-	(3,306)	-	-	-	-	(3,306)	- (3,306)
Transactions with owners	-	-	(3,306)	-	-	-	(2,758,519)	(2,761,825)	- (2,761,825)
Profit for the year	-	-	-	-	-	-	4,236,418	4,236,418	- 4,236,418
Other comprehensive loss for the year	-	-	-	-	-	(2,562,095)	-	(2,562,095)	- (2,562,095)
Total comprehensive (loss)/income for the year	-	-	-	-	-	(2,562,095)	4,236,418	1,674,323	- 1,674,323
Transfer to reserves	-	-	-	447,873	447,873	-	(895,746)	-	- -
<b>Balance at 31 December 2011</b>	34,620,187	31,923,740	(570,630)	2,457,855	875,034	5,010,828	3,809,672	78,126,686	2,000,000 80,126,686



*The notes set out on pages 10 to 43 form an integral part of these consolidated financial statements.*

## Consolidated statement of cash flows

	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
<b>OPERATING ACTIVITIES</b>		
Profit for the year	4,680,949	4,236,418
Adjustments:		
Depreciation of property, plant and equipment	2,950,741	2,557,664
Loss on write off of property, plant and equipment	6,014	1,006
Loss/(profit) on sale of available for sale investments	160,748	(1,014,039)
Share of results of associates	709,828	689,405
Loss from acquisition of associate	-	55,396
Impairment of investment in associate	250,000	-
Impairment of available for sale investments	2,336,905	3,650,895
Dividend income from available for sale investments	(598,830)	(146,468)
Income from short term murabaha and wakala investments	(95,128)	(14,442)
Interest income	(6,216)	(4,855)
Finance costs	541,024	537,976
Foreign exchange loss on non operating assets and liabilities	33,500	97,500
Provision for land-fill expenses	28,700	25,708
Provision for staff indemnity	723,121	838,295
	11,721,356	11,510,459
Changes in operating assets and liabilities:		
Inventories and spare parts	(1,059,815)	(1,281,087)
Investments at fair value through statement of income	688,881	1,314,582
Accounts receivable and other assets	1,570,311	(2,800,408)
Accounts payable and other liabilities	603,539	3,088,691
	13,524,272	11,832,237
Cash from operations	(334,754)	(476,253)
Staff indemnity paid		
<b>Net cash from operating activities</b>	<b>13,189,518</b>	<b>11,355,984</b>



The notes set out on pages 10 to 43 form an integral part of these consolidated financial statements.

## Consolidated statement of cash flows (continued)

	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(2,317,886)	(3,714,707)
Investment in associates - net	-	(287,787)
Proceeds from reduction of capital of associate	82,801	-
Purchase of available for sale investments	(3,463,008)	(27,599)
Proceeds on sale of available for sale investments	454,622	3,547,625
Dividend income received from available for sale investments	598,830	146,468
Income received from short term murabaha and wakala investments	37,808	14,442
Interest income received	6,216	4,855
<b>Net cash used in investing activities</b>	<b>(4,600,617)</b>	<b>(316,703)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of Musharaka bonds	-	(14,010,105)
Repayment of murabaha payable	(9,420,656)	-
Proceeds from murabaha payables	12,984,430	2,780,195
Proceeds of long term loan	-	6,005,000
Repayment of term loans	(5,294,750)	(2,700,000)
Purchase of treasury shares	(103,798)	(3,306)
Sale of treasury shares	562,066	-
Finance costs paid	(541,024)	(537,976)
Dividends paid	(3,474,925)	(2,758,519)
<b>Net cash used in financing activities</b>	<b>(5,288,657)</b>	<b>(11,224,711)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,300,244</b>	<b>(185,430)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>2,814,244</b>	<b>2,999,674</b>
<b>Cash and cash equivalents at end of the year</b>	<b>6,114,488</b>	<b>2,814,244</b>
<b>Non-cash transaction:</b>		
Increase in investment in associates	-	647,667
Decrease in accounts receivable and other assets	-	(647,667)



The notes set out on pages 10 to 43 form an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1 Incorporation and activities

National Industries Company – KSC (the parent company) was incorporated on 1 February 1997 as a Kuwaiti closed shareholding company and its shares are listed on the Kuwait Stock Exchange. The parent company is a subsidiary of National Industries Group Holding – SAK (ultimate parent company).

The main objectives of the parent company are as follows:

- Manufacturing and marketing building materials and infrastructure products.
- Practicing all industrial activities, re-manufacturing and related activities and implementing same directly or through a third party to the account of the company or the third party after obtaining the necessary industrial licenses from the competent authorities.
- Implementing studies, researches and development and providing consultations in all kinds of industrial fields.
- Practicing trade of the materials related to the activities of import, export and marketing of products.
- Transportation, clearance, storage and packaging of raw materials and products and acquisition of the necessary means of transportation and storage.
- Quarry works and extraction, trading, formation and manufacturing of sands and rocks and import of the necessary equipment.
- Acquisition and rental of the movables and real estate properties necessary to carry out the company's activity and market its products.
- Establishing companies or participating therein with other parties to carry out the company's activities.
- Investing surplus funds in financial portfolios managed by specialized companies.
- The company may carry out the above activities inside and outside Kuwait.

The group comprises the parent company and its subsidiaries (note 7).

On 29 November 2012 the Companies Law No. (25) of 2012 was issued by an Amiri Decree. This law is to be implemented and was effective on the date of its publication in the Official Gazette. Companies already established at the time of this law became effective are required to adjust their circumstances in accordance with the provisions of the law within six months of it coming into force and as specified in the executive regulations.

The address of the parent company's registered office is PO Box 3314, Safat 13034, State of Kuwait.

The parent company's board of directors approved these consolidated financial statements for issuance on 21 February 2013. The general assembly of the parent company's shareholders has the power to amend these consolidated financial statements after issuance.

### 2 Basis of preparation

The consolidated financial statements of the group have been prepared under historical cost convention except for financial assets at fair value through income statement and financial assets available for sale that have been measured at fair value.

The consolidated financial statements have been presented in Kuwaiti Dinars ("KD").

The group has elected to present the "statement of comprehensive income" in two statements: the statement of income and the statement of comprehensive income.

### 3 Statement of compliance

These 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).

## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in previous year except as discussed below:

The group has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year:

#### 4.1 Adoption of new IASB Standards and amendments during the period

The group has adopted the following amended IFRS during the period:

##### *IFRS 7 Financial Instruments: Disclosures- amendment*

The amendments to IFRS 7 Financial Instruments: Disclosures resulted as a part of comprehensive review of off financial position activities. The amendments allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also required additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The adoption of this amendment did not have any significant impact on the financial position or performance of the group.

#### 4.2 IASB Standards issued but not yet effective

At the date of authorisation of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the group.

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the group's financial statements.

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IAS 1 Presentation of Financial Statements – amendment	1 July 2012
IAS 32 Financial Instruments: Presentation – amendments	1 January 2014
IAS 27 Consolidated and Separate Financial Statements	1 January 2013
- Revised as IAS 27 Separate Financial Statements	
IAS 28 Investments in Associates	1 January 2013
- Revised as IAS 28 Investments – Associates and Joint Venture	
IFRS 7 Financial Instruments: Disclosures – amendment	1 January 2013
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 12 Disclosure of interests in other entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
Annual Improvements 2009-2011	1 January 2013



## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### 4.2.1 IAS 1 Presentation of Financial Statements

The amendment to IAS 1 requires entities to group other comprehensive income items presented in the consolidated statement of comprehensive income based on those:

- a) Potentially reclassifiable to consolidated statement of income in a subsequent period, and
- b) That will not be reclassified to consolidated statement of income subsequently.

The group will change the current presentation of the consolidated statement of comprehensive income when the amendment becomes effective.

##### 4.2.2 Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Management does not anticipate a material impact on the group's consolidated financial statements from these amendments.

##### 4.2.3 IAS 27 Consolidated and Separate Financial statements – Revised as IAS 27 Separate Financial Statements

As a result of the consequential amendments, IAS 27 now deals with separate financial statements.

##### 4.2.4 IAS 28 Investments in Associates – Revised as IAS 28 Investments in Associates and Joint Ventures

As a result of the consequential amendments, IAS 28 brings investments in joint ventures into its scope. However, the equity accounting methodology under IAS 28 remains unchanged.

##### 4.2.5 Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Qualitative and quantitative disclosures have been added to IFRS 7 'Financial Instruments: Disclosures' (IFRS 7) relating to gross and net amounts of recognised financial instruments that are (a) set off in the statement of financial position and (b) subject to enforceable master netting arrangements and similar agreements, even if not set off in the statement of financial position. The amendments are effective for annual reporting periods beginning on or after 1 January 2013 and interim periods within those annual periods. The required disclosures should be provided retrospectively. Management does not anticipate a material impact on the group's consolidated financial statements from these amendments.

## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### 4.2.6 IFRS 9 Financial Instruments

The IASB aims to replace IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety, with the replacement standard to be effective for annual periods beginning 1 January 2015. IFRS 9 is the first part of Phase 1 of this project. The main phases are:

- Phase 1: Classification and Measurement
- Phase 2: Impairment methodology
- Phase 3: Hedge accounting

In addition, a separate project is dealing with derecognition.

##### 4.2.7 IFRS 10 Consolidated Financial Statements

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements. It revised the definition of control together with accompanying guidance to identify an interest in subsidiary. However, the requirements and procedures of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

##### 4.2.8 IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is designed to complement the other new standards. It sets out consistent disclosure requirements for subsidiaries, joint ventures and associates, as well as unconsolidated structured entities. The disclosure requirements are extensive and will result in significant amounts of new disclosures for some companies. Structured entities were previously referred to in SIC 12 as special purpose entities. The disclosures required by IFRS 12 aim to provide transparency about the risks a company is exposed to through its interests in structured entities.

##### 4.2.9 IFRS 13 Fair Value Measurement

IFRS 13 does not affect which items to be fair valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. The adoption of this standard is not expected to have a significant impact on the financial position and performance of the group.

##### 4.2.10 Annual Improvements 2009-2011 (the Annual Improvements)

The Annual Improvements 2009-2011 (the Annual Improvements) made several minor amendments to a number of IFRSs. The amendments relevant to the group are summarised below:

Clarification of the requirements for opening statement of financial position:

- clarifies that the appropriate date for the opening statement of financial position is the beginning of the preceding period (related notes are no longer required to be presented)
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements:

- clarifies that additional financial statement information need not be presented in the form of a complete set of financial statements for periods beyond the minimum requirements
- requires that any additional information presented should be presented in accordance with IFRS and the entity should present comparative information in the related notes for that additional information.



## Notes to the consolidated financial statements (continued)

### 4 Changes in accounting policies (continued)

#### 4.2 IASB Standards issued but not yet effective (continued)

##### 4.2.10 Annual Improvements 2009-2011 (the Annual Improvements) (continued)

Tax effect of distribution to holders of equity instruments:

- addresses a perceived inconsistency between IAS 12 ‘Income Taxes’ (IAS 12) and IAS 32 ‘Financial Instruments: Presentation’ (IAS 32) with regards to recognising the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction
- clarifies that the intention of IAS 32 is to follow the requirements in IAS 12 for accounting for income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction.

Segment information for total assets and liabilities:

- clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (i) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; (ii) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment.

The Annual Improvements noted above are effective for annual periods beginning on or after 1 January 2013. Management does not anticipate a material impact on the group’s consolidated financial statements from these amendments.

### 5 Significant accounting policies

The significant accounting policies adopted in the preparation of consolidated financial statements are set out below:

#### 5.1 Basis of consolidation

The group financial statements consolidate those of the parent company and all of its subsidiaries. Subsidiaries are all entities over which the group has the power to control the financial and operating policies. The group obtains and exercises control through more than half of the voting rights. All subsidiaries have a reporting date of 31 December or no more than three month of parent company reporting date. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

All transactions and balances between group companies are eliminated on consolidation, including unrealised gains and losses on transactions between group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.1 Basis of consolidation (continued)

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the group. The group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

When a controlling interest in the subsidiaries is disposed off, the difference between the selling price and the net asset value plus cumulative translation difference and goodwill is recognised in the consolidated statement of income.

#### 5.2 Business combinations

The group applies the acquisition method in accounting for business combinations. The consideration transferred by the group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

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.

The group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

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.

Goodwill is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately. Goodwill is carried at cost less accumulated impairment losses.

#### 5.3 Segment reporting

The group has two operating segments: the building materials, contracting services and investment segments. In identifying these operating segments, management generally follows the group's service lines representing its main products and services. Each of these operating segments is managed separately as each requires different approaches and other resources. All inter-segment transfers are carried out at arm's length prices.

For management purposes, the group uses the same measurement policies as those used in its financial statements. In addition, assets or liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.4 Revenue

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 payment is made.

Revenue arises from the sale of goods and rendering of services and is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts.

The group applies the revenue recognition criteria set out below to each separately identifiable component of revenue.

##### 5.4.1 Sale of goods

Sale of goods is recognised when the group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods.

##### 5.4.2 Construction contracts

When the outcome can be assessed reliably, contract revenue and associated costs are recognised by reference to the stage of completion of the contract activity at the reporting date. Revenue is measured at the fair value of consideration received or receivable in relation to that activity.

When the group cannot measure the outcome of a contract reliably, revenue is recognised only to the extent of contract costs that have been incurred and are recoverable. Contract costs are recognised in the period in which they are incurred.

In either situation, when it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in consolidated statement of income.

A construction contract's stage of completion is assessed by management based on milestones (usually defined in the contract) for the activities to be carried out under the contract and other available relevant information at the reporting date. The maximum amount of revenue recognised for each milestone is determined by estimating relative contract fair values of each contract phase, i.e. by comparing the group's overall contract revenue with the expected profit for each corresponding milestone. Progress and related contract revenue in-between milestones is determined by comparing costs incurred to date with the total estimated costs estimated for that particular milestone (a procedure sometimes referred to as the cost-to-cost method).

The gross amount due from customers for contract work is presented within trade and other receivables for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. The gross amount due to customers for contract work is presented within other liabilities for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

##### 5.4.3 Rendering of services

Rental income is recognised on a straight line basis over the rental contract periods.

##### 5.4.4 Interest and similar income

Interest income and expenses are reported on an accrual basis using the effective interest method.

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

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.4 Revenue (continued)

##### 5.4.5 Dividend income

Dividend income, other than those from investments in associates, are recognised at the time the right to receive payment is established.

#### 5.5 Operating expenses

Operating expenses are recognised upon utilisation of the service or at the date of their origin.

#### 5.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

#### 5.7 Taxation

##### 5.7.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

The contribution to KFAS is calculated at 1% of taxable profit of the group in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that income from associates and subsidiaries, Board of Directors' remuneration, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

##### 5.7.2 National Labour Support Tax (NLST)

NLST is calculated in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit of the group after deducting directors' fees for the year. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST deducted from the profit for the year.

##### 5.7.3 Zakat

Contribution to Zakat is calculated at 1% of the profit of the group in accordance with the Ministry of Finance resolution No. 58/2007 effective from 10 December 2007.

#### 5.8 Property, plant and equipment

Property, plant and equipment are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the group's management.

Property, plant and equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value. 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 arising from items of property, plant and equipment. The following useful lives are applied:

- Buildings: 4 - 20 years
- Plant and equipment: 1 - 10 years
- Motor vehicles 2 - 10 years
- Furniture and equipment: 4 - 5 years.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.8 Property, plant and equipment (continued)

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

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 recognised in the consolidated statement of income.

#### 5.9 Investment in associates

Associates are those entities over which the group is able to exert significant influence but which are neither subsidiaries nor joint ventures. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method. Any goodwill or fair value adjustment attributable to the group's share in the associate is not recognised separately and is included in the amount recognised as investment in associates.

Under the equity method, the carrying amount of the investment in associates is increased or decreased to recognise the group's share of the profit or loss and other comprehensive income of the associate, adjusted where necessary to ensure consistency with the accounting policies of the group.

Unrealised gains and losses on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The difference in reporting dates of the associates and the group is not more than three months. Adjustments are made for the effects of significant transactions or events that occur between that date and the date of the group's consolidated financial statements. The associate's accounting policies conform to those used by the group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the group measures and recognises any retaining investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal are recognised in the consolidated statement of income.

#### 5.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Cost of finished goods is calculated using first-in first-out method. For other items of inventory, cost is calculated using the weighted average cost method.

Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

#### 5.11 Financial instruments

##### 5.11.1 Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.



## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.11 Financial instruments (continued)

##### 5.11.1 Recognition, initial measurement and derecognition (continued)

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

- rights to receive cash flows from the assets 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 risks and rewards of the asset but has transferred control of the asset.

Where 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, a new asset is recognised to the extent of the group's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 consolidated statement of income.

##### 5.11.2 Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through statement of income (FVTSI)
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTSI are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

##### • Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.11 Financial instruments (continued)

##### 5.11.2 Classification and subsequent measurement of financial assets (continued)

- *Loans and receivables (continued)*

The group categorises loans and receivables into following categories:

- *Trade receivables*

Trade receivable are stated at original invoice amount less allowance 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 as incurred

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and bank balances that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

- **Financial assets at FVTSI**

Classification of investments as financial assets at FVTSI depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are as designated at FVTSI upon initial recognition. All derivative financial instruments fall into this category.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

- **AFS financial assets**

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in profit or loss. All other AFS financial assets are measured at fair value. Gains and losses are recognised in other comprehensive income and reported within the fair value reserve within equity, except for impairment losses, and foreign exchange differences on monetary assets, which are recognised in profit or loss. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

The group assesses at each reporting date whether there is objective evidence that a financial asset available for sale or a group of financial assets available for sale is impaired. In the case of equity investments classified as financial assets available for sale, objective evidence would include a significant or prolonged decline in the fair value of the equity investment below its cost. 'Significant' is 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 is removed from other comprehensive income and recognised in the consolidated income statement.

Reversals of impairment losses are recognised in other comprehensive income, except for financial assets that are debt securities which are recognised in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.11 Financial instruments (continued)

##### *5.11.3 Classification and subsequent measurement of financial liabilities*

The group's financial liabilities include borrowings, trade and other payables.

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

- *Financial liabilities other than at fair value through income statement*

These are stated using effective interest rate method. Borrowings, Trade Payables, Musharaka Bonds and murabaha finance payable are classified as financial liabilities other than at FVTSL.

- *Trade payables*

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

- *Borrowings*

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

- *Murabaha finance payables*

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

##### *5.11.4 Trade and settlement date accounting*

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity 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.

##### *5.11.5 Amortised cost of financial instruments*

This is computed using the effective interest method less any allowance for impairment. 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 interest rate.

##### *5.11.6 Offsetting of financial instruments*

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

##### *5.11.7 Fair value 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 instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.



## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.12 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued and paid up.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Legal and voluntary reserves comprise appropriations of current and prior period profits in accordance with the requirements of the commercial companies' law and the parent company's articles of association.

Other components of equity include the following:

- Foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the group's foreign entities into KD
- Fair value reserve – comprises gains and losses relating to available for sale financial assets
- Treasury shares reserve – comprises gains and losses arising from sale of treasury shares

Retained earnings include all current and prior period retained profits. All transactions with owners of the parent are recorded separately within equity.

Dividend distributions payable to equity shareholders are included in other liabilities when the dividends have been approved in a general meeting.

#### 5.13 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, (the "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 then to the voluntary reserve and statutory reserve. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

#### 5.14 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

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

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.

## Notes to the consolidated financial statements (continued)

### 5 Significant accounting policies (continued)

#### 5.15 Foreign currency translation

##### *5.15.1 Functional and presentation currency*

The consolidated financial statements are presented in currency Kuwait Dinar (KD), which is also the functional currency of the parent company. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

##### *5.15.2 Foreign currency transactions and balances*

Foreign currency transactions are translated into the functional currency of the respective group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

##### *5.15.3 Foreign operations*

In the group's financial statements, all assets, liabilities and transactions of group entities with a functional currency other than the KD are translated into KD upon consolidation. The functional currency of the entities in the group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate. Income and expenses have been translated into KD at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

#### 5.16 End of service indemnity

The group provides end of service benefits to its 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 in accordance with relevant labour law and the employees' contracts. The expected costs of these benefits are accrued over the period of employment. This liability, which is unfunded, represents the amount payable to each employee as a result of termination on the reporting date.

With respect to its Kuwaiti national employees, the group makes contributions to the Public Institution for Social Security calculated as a percentage of the employees' salaries. The group's obligations are limited to these contributions, which are expensed when due.

#### 5.17 Related party transactions

Related parties consist of directors, executive officers, their close family members and companies which they are principal owners. All related party transactions are approved by management.

## Notes to the consolidated financial statements (continued)

### 6 Significant management judgements and estimation uncertainty

The preparation of the group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the end of the reporting period. However uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

#### 6.1 Significant management judgments

In the process of applying the group's accounting policies, management has made the following significant judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

##### 6.1.1 *Classification of financial instruments*

Judgements are made in the classification of financial instruments based on management's intention at acquisition.

The group classifies financial assets as held for trading if they are acquired primarily for the purpose of short term profit making.

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

Classification of assets as loans and receivables depends on the nature of the asset. If the group is unable to trade these financial assets due to inactive market and the intention is to receive fixed or determinable payments the financial asset is classified as loans and receivables.

All other financial assets are classified as available for sale.

#### 6.2 Estimates uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different

##### 6.2.1 *Impairment of associates*

After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associated companies, at each reporting date based on existence of 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 consolidated statement of income.

##### 6.2.2 *Impairment of available for sale equity investments*

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 judgment.

## 6 Significant management judgements and estimation uncertainty (continued)

### 6.2 Estimates uncertainty (continued)

#### 6.2.3 Impairment of trade receivables

An estimate of the collectible amount of trade 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. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

#### 6.2.4 Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

#### 6.2.5 Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain software and equipment.

#### 6.2.6 Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

## 7 Subsidiaries

The details of the subsidiaries are as follows:

	Country of incorporation	Percentage of ownership		Purpose
		31 Dec. 2012	31 Dec 2011	
Building Systems Industries Company - WLL	Kuwait	98	98	Construction contracting
National Industries Company for Ceramic - KSCC	Kuwait	60	60	Manufacturing

## Notes to the consolidated financial statements (continued)

### 8 Revenue from sale and services

	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
Sale of building and infrastructures materials	39,631,017	37,790,747
Contracting services	2,553,913	2,528,965
	<b>42,184,930</b>	<b>40,319,712</b>

### 9 Other operating income

	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
Rental income	175,910	491,220
Other	538,132	327,188
	<b>714,042</b>	<b>818,408</b>

### 10 Investment income

	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2011 KD
(Loss)/profit on sale of available for sale investments	(160,748)	1,014,039
Dividend income from available for sale investments	598,830	146,468
Dividend income from investments at fair value through statement of income	57,781	60,000
Loss from investments at fair value through statement of income	(246,617)	(1,071,730)
Income from short term murabaha and wakala investments	95,128	14,442
Interest and other income	19,401	24,492
	<b>363,775</b>	<b>187,711</b>

### 11 Basic and diluted earnings per share attributable to the owners of the parent company

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to the owners of the parent company by the weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2012	Year ended 31 Dec. 2011
Profit for the year attributable to the owners of the parent company(KD)	<b>5,025,725</b>	<b>4,236,418</b>
Weighted average number of shares outstanding during the year (excluding treasury shares)	<b>345,350,592</b>	<b>344,820,051</b>
Basic and diluted earnings per share	<b>14.55 Fils</b>	<b>12.29 Fils</b>

The staff bonus shares scheme has no effect on the diluted earnings per share and accordingly such information has not been presented.

## Notes to the consolidated financial statements (continued)

### 12 Property, plant and equipment

31 December 2012	Buildings KD	Plant and equipment KD	Motor vehicles KD	Furniture and equipment KD	Assets under construction KD	Total KD
<b>Cost</b>						
At 1 January	25,078,663	37,527,118	10,820,905	4,742,722	17,033,107	95,202,515
Additions/transfers	5,402,702	6,465,967	527,458	255,224	(10,333,465)	2,317,886
Transferred to inventories and spare parts ( note 15)	-	-	-	-	(2,117,185)	(2,117,185)
Write-off/disposals	(1,386,330)	(354,150)	(822,184)	(214,923)	-	(2,777,587)
At 31 December	29,095,035	43,638,935	10,526,179	4,783,023	4,582,457	92,625,629
<b>Accumulated depreciation</b>						
At 1 January	23,493,639	31,861,062	8,765,610	4,458,310	-	68,578,621
Charge for the year	288,907	1,642,293	824,963	194,578	-	2,950,741
Relating to write- off/disposals	(1,386,293)	(350,635)	(822,118)	(212,527)	-	(2,771,573)
At 31 December	22,396,253	33,152,720	8,768,455	4,440,361	-	68,757,789
<b>Net book value</b>						
At 31 December	6,698,782	10,486,215	1,757,724	342,662	4,582,457	23,867,840



## Notes to the consolidated financial statements (continued)

### 12 Property, plant and equipment (continued)

31 December 2011 Cost	Buildings KD	Plant and equipment KD	Motor vehicles KD	Furniture and equipment KD	Assets under construction KD	Total KD
At 1 January	25,058,069	35,992,797	10,139,108	4,606,484	16,085,633	91,882,091
Additions/transfers	20,594	1,541,771	1,067,797	137,071	947,474	3,714,707
Write-off/disposals	-	(7,450)	(386,000)	(833)	-	(394,283)
At 31 December	25,078,663	37,527,118	10,820,905	4,742,722	17,033,107	95,202,515
Accumulated depreciation						
At 1 January	23,262,710	30,502,818	8,337,657	4,311,049	-	66,414,234
Charge for the year	230,929	1,365,319	813,932	147,484	-	2,557,664
Relating to write- off/disposals	-	(7,075)	(385,979)	(223)	-	(393,277)
At 31 December	23,493,639	31,861,062	8,765,610	4,458,310	-	68,578,621
Net book value						
At 31 December	1,585,024	5,666,056	2,055,295	284,412	17,033,107	26,623,894

The parent company's buildings have been constructed on lands which have been leased from the government through renewable lease contracts.

Assets under construction represents the cost incurred on the expansion of the group's existing factories and the construction of manufacturing lines by a subsidiary. During the year, portions of the manufacturing lines which were completed and ready for intended use were capitalised in the appropriate categories. The costs relating to the remaining manufacturing lines and facilities will be transferred to the appropriate asset categories when the assets are ready for their intended use.

## Notes to the consolidated financial statements (continued)

### 13 Investment in associates

	Country of incorporation	Percentage of ownership		Purpose
		31 Dec. 2012	31 Dec. 2011	
Saudi Insulation Bricks Company –WLL	Saudi Arabia	50%	50%	Manufacturing
Kuwait Rocks Company – KSC (Closed)	Kuwait	38%	38%	Building materials
Al-Raya Global Real Estate Co. – KSCC	Kuwait	20%	20%	Real estate
Insulation System Factory – WLL	Bahrain	50%	50%	Contracting
United Gulf Pipes Factory – LLC	Oman	30%	30%	Manufacturing
Omani German Company for Building Materials – LLC	Oman	32.5%	32.5%	Manufacturing

The movement of investment in associates during the year is as follows:

	31 Dec. 2012 KD	31 Dec. 2011 KD
Balance at beginning of the year	6,842,977	6,680,354
Additions during the year	-	935,454
Reduction of capital of an associate	(82,801)	-
Share of results of associate	(709,828)	(689,405)
Impairment of investment in an associate	(250,000)	-
Loss from acquisition of associate	-	(55,396)
Share of other comprehensive income	23,143	15,922
Foreign exchange translation	16,617	(43,952)
	<b>5,840,108</b>	<b>6,842,977</b>

As a result of the impairment testing of the carrying value of the investment in associates, the group recognised an impairment loss of KD250,000 (2011: KD Nil).

*Share of associates' assets and liabilities:*

	31 Dec. 2012 KD	31 Dec. 2011 KD
Assets	13,612,517	14,903,758
Liabilities	(7,772,409)	(8,060,781)
	<b>5,840,108</b>	<b>6,842,977</b>

*Share of associates' revenue and loss:*

	31 Dec. 2012 KD	31 Dec. 2011 KD
Revenue	4,491,095	3,862,203
Loss	(709,828)	(689,405)

All associates are unquoted.



## Notes to the consolidated financial statements (continued)

### 14 Available for sale investments

	31 Dec. 2012 KD	31 Dec. 2011 KD
Local quoted securities	11,814,979	12,123,081
Local unquoted securities	9,262,032	9,736,621
Foreign quoted securities	1,852,072	1,273,252
Foreign unquoted securities	16,771,865	18,141,307
Murabaha investment	2,998,571	-
	<b>42,699,519</b>	<b>41,274,261</b>

During the year, certain available for sale investments which were carried at cost amounting to KD615,370 (2011: KD2,520,594) were sold resulting into a loss of KD160,748 (2011: gain of KD1,014,039).

During the year, the parent company recognised an impairment loss of KD2,336,905 (2011: KD3,650,895) against certain investments. Local quoted securities amounting to KD11,359,150 (2011: KD11,160,227) are pledged against loan facilities (note 22).

Murabaha investment represents the parent company's participation in a syndicated arrangement of murabaha provided to the ultimate parent company by a local Islamic financial institution. The investment carries an option to convert this investment into equity shares of a Kuwaiti listed company at an agreed price in the event of default or on maturity, whichever is earlier. The investment carries effective profit rate of 5% and matures on 10 August 2015.

### 15 Inventories and spare parts

	31 Dec. 2012 KD	31 Dec. 2011 KD
Raw materials	7,972,629	5,408,159
Finished goods and work-in-progress	4,345,738	3,769,510
Spare parts	2,630,152	2,455,182
Goods in transit	565,386	704,054
	<b>15,513,905</b>	<b>12,336,905</b>
Provision for obsolete and slow moving items	<b>(650,701)</b>	<b>(650,701)</b>
	<b>14,863,204</b>	<b>11,686,204</b>

During the year, on the commencement of commercial production of the subsidiary, the group transferred items of inventory amounting to KD2,117,185 from assets under construction to inventories and spare parts (note 12).

### 16 Investments at fair value through statement of income

	31 Dec. 2012 KD	31 Dec. 2011 KD
Designated on initial recognition:		
Managed funds and portfolios	2,910,286	3,511,342
Quoted equity securities	581,834	669,659
	<b>3,492,120</b>	<b>4,181,001</b>

## Notes to the consolidated financial statements (continued)

### 17 Accounts receivable and other assets

	31 Dec. 2012 KD	31 Dec. 2011 KD
Trade receivables, net	6,867,554	8,353,844
Due from ultimate parent company	173,519	55,386
Due from associates	3,659,517	3,370,498
Due from related companies	9,023	9,023
Receivable from sale of investment	960,293	2,511,582
Staff receivables	118,410	162,767
Advance payments towards purchase of investments	1,000,000	20,543
Prepayments	420,431	365,759
Advances to contractors	188,546	314,265
Retentions	557,038	348,404
Accrued income and other assets	178,358	133,609
	<b>14,132,689</b>	<b>15,645,680</b>

17.1 The carrying values of the financial assets included above approximate their fair values and are due within one year.

17.2 During the year the group entered into contract for purchase of certain investments which was under finalisation at the financial position date.

17.3 Trade receivables are non-interest bearing and generally on 30 – 90 days credit terms.

As at 31 December the aging analysis of trade receivables is as follows:

	31 Dec. 2012 KD	31 Dec. 2011 KD
Neither past due nor impaired	4,757,167	6,453,251
Past due but not impaired		
- 3 – 6 months	2,088,082	1,900,593
Impaired		
- over 6 months	272,305	1,849
Total trade receivables	<b>7,117,554</b>	<b>8,355,693</b>

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2012, trade receivables of KD2,088,082 (2011: KD1,900,593) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

### 18 Share capital and share premium

	31 Dec. 2012 KD	31 Dec. 2011 KD
Shares of KD0.100 each		
- Authorised	35,320,187	34,620,187
- Issued and fully paid	<b>34,620,187</b>	<b>34,620,187</b>

The extra ordinary general assembly of the shareholders held on 8 May 2012 approved to increase the authorised capital of the company from 346,201,864 shares to 353,201,864 shares which will be issued to employees under the employee share option plan.

## Notes to the consolidated financial statements (continued)

### 18 Share capital and share premium (continued)

During the year the group established an employee share option plan. Under the plan certain employees will be granted shares for a period of five years from 2012 to 2016 at a price to be determined by the board of directors. Total numbers of shares to be granted under the scheme are 7,000,000. The scheme has been approved by the relevant authorities as well as the shareholders in the ordinary and extra ordinary general assembly held on 8 May 2012. Upto 31 December 2012 no shares have been granted to the employees.

### 19 Treasury shares

	31 Dec. 2012	31 Dec. 2011
Number of shares	19,932	1,384,609
Percentage of issued shares	0.01%	0.40%
Cost of treasury shares (KD)	6,440	570,630
Market value (KD)	7,076	387,691

Reserves of the parent company equivalent to the cost of treasury shares have been earmarked as non-distributable.

### 20 Legal and voluntary reserves

In accordance with the Commercial Companies Law and the parent company's articles of association, 10% of the profit for the year attributable to the owners of the parent company before KFAS, NLST, Zakat and directors' remuneration is transferred to legal reserve. The parent company may resolve to discontinue such annual transfer when the reserve totals 50% of the paid up share capital.

Distribution of the legal 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 distribution of a dividend of that amount.

In accordance with the Commercial Companies Law and the parent company's articles of association, 10% of the profit for the year attributable to the owners of the parent company before KFAS, NLST, Zakat and directors' remuneration is transferred to the voluntary reserve. There are no restrictions on distribution of voluntary reserve.

## Notes to the consolidated financial statements (continued)

### 21 Other components of equity

	Fair value reserve KD	Foreign currency translation reserve KD	Treasury shares reserve KD	Total KD
<b>Balance at 1 January 2012</b>	<b>5,058,531</b>	<b>(84,071)</b>	<b>36,368</b>	<b>5,010,828</b>
Sale of treasury shares	-	-	(36,368)	(36,368)
Exchange differences on translation of foreign operations	-	16,617	-	16,617
Share of other comprehensive income of associates	19,896	3,247	-	23,143
AFS financial assets:				
- Net loss arising during the year	(1,362,612)	-	-	(1,362,612)
- Transferred to consolidated statement of income on impairment	2,336,905	-	-	2,336,905
- Transferred to consolidated statement of income on sale	(59,768)	-	-	(59,768)
<b>Total other comprehensive income/(loss) for the year</b>	<b>934,421</b>	<b>19,864</b>	<b>(36,368)</b>	<b>917,917</b>
<b>Balance at 31 December 2012</b>	<b>5,992,952</b>	<b>(64,207)</b>	<b>-</b>	<b>5,928,745</b>
<b>Balance at 1 January 2011</b>	<b>7,573,592</b>	<b>(37,037)</b>	<b>36,368</b>	<b>7,572,923</b>
Exchange differences on translation of foreign operations	-	(43,952)	-	(43,952)
Share of other comprehensive income of associates	19,004	(3,082)	-	15,922
AFS financial assets:				
- Net loss arising during the year	(6,176,960)	-	-	(6,176,960)
- Transferred to consolidated statement of income on impairment	3,650,895	-	-	3,650,895
- Transferred to consolidated statement of income on sale	(8,000)	-	-	(8,000)
<b>Total other comprehensive loss for the year</b>	<b>(2,515,061)</b>	<b>(47,034)</b>	<b>-</b>	<b>(2,562,095)</b>
<b>Balance at 31 December 2011</b>	<b>5,058,531</b>	<b>(84,071)</b>	<b>36,368</b>	<b>5,010,828</b>

### 22 Term loans

	31 Dec. 2012 KD	31 Dec. 2011 KD
Loan facility – Kuwait Dinar	3,702,446	5,502,446
Loan facility – US Dollar	3,541,250	7,002,500
	<b>7,243,696</b>	<b>12,504,946</b>
Instalments due with one year	(5,341,250)	(5,301,250)
Instalments due after one year	1,902,446	7,203,696

#### Loan facility – Kuwait Dinar

The parent company obtained from Industrial Bank of Kuwait a loan facility of KD9,000,000 bearing 3.5% interest per annum on drawn amount and 1% per annum on undrawn facility. The loan has been obtained to partly finance establishment of a new factory and has been guaranteed by the ultimate parent company. The loan is being repaid in ten semi annual instalments of KD900,000 each beginning 15 July 2011. The instalments due within the next twelve months are shown under current liabilities.

## Notes to the consolidated financial statements (continued)

### 22 Term loans (continued)

#### Loan facility – US Dollar

In 2011, the parent company obtained from a foreign bank a loan facility of US\$25,000,000 carrying an average effective profit rate of 3% per annum. The loan is due in 4 equal semi annual instalments commencing from 4 April 2012. This loan is secured by way of pledge of certain investment securities amounting KD11,359,150 (31 December 2011: KD11,160,227) (note 14).

### 23 Murabaha payables

	31 Dec. 2012 KD	31 Dec. 2011 KD
Short term murabaha	6,639,164	3,056,970
Long term murabaha:		
- Due within one year	16,885	18,420
- Due after one year	-	16,885
	16,885	35,305
	6,656,049	3,092,275

These represent murabaha facilities obtained from local financial institutions carrying an average effective profit rate of 4.5% (2011: 4.5%) per annum.

### 24 Accounts payable and other liabilities

	31 Dec. 2012 KD	31 Dec. 2011 KD
Trade payables	6,008,327	5,066,638
Due to associates	335,341	67,262
Due to other related companies	-	151,027
Staff payables	151,873	186,633
Provision for staff leave	726,909	642,616
Accrued expenses	989,622	1,474,728
Due to customers for contract works	47,001	88,770
Other liabilities	1,104,347	1,105,633
	9,363,420	8,783,307

### 25 Fixed deposit

Fixed deposit yields interest at an average rate of 2% (2011: 1.85%) per annum.

## Notes to the consolidated financial statements (continued)

### 26 Operating segments

The group's format for reporting segment information is business segments and the group primarily operates in two business segments: Building materials, Contracting services and Investments. The segment information is as follows:

	Building materials and contracting services		Investments		Total
	31 Dec. 2012 KD	31 Dec. 2011 KD	31 Dec. 2012 KD	31 Dec. 2011 KD	
Segment revenue/(loss)	42,184,930	40,319,712	(2,932,958)	(4,207,985)	39,251,972
Loss from investments	-	-	1,973,130	3,463,184	1,973,130
Share of results of associates	-	-	709,828	689,405	709,828
Impairment of investment in associate	-	-	250,000	-	250,000
Loss from acquisition of associate	-	-	-	55,396	-
Sales, per consolidated statement of income	-	-	-	-	55,396
Segment results	8,427,297	9,062,039	(2,932,958)	(4,207,985)	42,184,930
Unallocated expenses					5,494,339
Profit for the year, per consolidated statement of income					(813,390)
Depreciation	2,950,741	2,557,664	-	-	4,680,949
Impairment of available for sale investments	-	-	2,336,905	3,650,895	2,950,741
					2,336,905
Assets	47,070,382	48,958,062	64,089,586	60,260,199	111,159,968
Liabilities	(20,812,242)	(16,368,340)	(7,579,037)	(12,723,235)	(28,391,279)
	26,258,140	32,589,722	56,510,549	47,536,964	82,768,689
					80,126,686

## Notes to the consolidated financial statements (continued)

### 27 Proposed dividends

Subject to the requisite consent of the relevant authorities and approval of the general assembly, the directors propose for the year ended 31 December 2012 a cash dividend of 12 Fils (2011: 10 Fils) per share of paid up share capital be distributed to the shareholders of record as of the date of the general assembly.

The general assembly of the shareholders held on 8 May 2012 approved the consolidated financial statements for the year ended 31 December 2011 and cash dividend of 10 Fils (2010: 8 Fils) per share amounting to KD3,451,499 for the year ended 31 December 2011 which was paid following that approval.

### 28 Related party transactions

Related parties represent, major shareholders, directors and key management personnel of the parent company, and companies of which they are principal owners or over which they are able to exercise significant influence or joint control. Pricing policies and terms of these transactions are approved by the group's management.

Details of significant related party transactions and balances are as follows:

	31 Dec. 2012 KD	31 Dec. 2011 KD
<b>Amounts included in the consolidated financial position:</b>		
Due from ultimate parent company (note 17)	173,519	55,386
Due from associates (note 17)	4,619,810	4,330,791
Due from other related companies (note 17)	9,023	9,023
Due to associates (note 24)	335,341	67,262
Due to other related companies (note 24)	-	151,027
	<b>Year ended 31 Dec. 2012 KD</b>	<b>Year ended 31 Dec. 2011 KD</b>
<b>Transactions included in the consolidated statement of income:</b>		
Interest income	1,674	2,135
Management fees	-	46,479
<b>Purchase of raw materials (associate)</b>	<b>897,436</b>	<b>929,027</b>
<b>Compensation of key management personnel of the parent company</b>		
Directors' fees	35,000	35,000
Short term benefits	220,976	216,599
End of service benefits	33,938	39,798
Cost of share based payments	188,392	209,762
	<b>478,306</b>	<b>501,159</b>

Directors' fees of KD 35,000 for the year ended 31 December 2012 is subject to approval by the ordinary General Assembly meeting of the shareholders of the parent company. Directors' fees of KD35,000 for the year ended 31 December 2011 was approved by the ordinary General Assembly meeting held on 8 May 2012.



## Notes to the consolidated financial statements (continued)

### 29 Commitments and contingent liabilities

	31 Dec. 2012 KD	31 Dec. 2011 KD
Commitments to purchase investment securities	-	1,400,500
Letters of guarantee	1,703,723	482,000
Letters of guarantee from ultimate parent company	200,000	200,000
	<b>1,903,723</b>	<b>2,082,500</b>

### 30 Risk management objectives and policies

The recognition and management of risk is an essential element of group's risk strategy. The Board is ultimately responsible for the management of risks associated with group's activities. It has established a framework of policies and controls to identify, assess, monitor and manage risk.

Group's risk policies and processes aim to protect the asset values and income streams such that the interests of shareholders and external fund providers are protected and shareholders' return is optimised.

#### 30.1 Market risk

##### a) Foreign currency risk

The group is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to US Dollar, GBP Pound and currencies of other Middle Eastern countries. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored. Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows. Where the amounts to be paid and received in specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward foreign contracts may be entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

The group had the following net significant exposures denominated in foreign currencies, translated into Kuwaiti Dinar at the closing rate:

	31 Dec. 2012 KD	31 Dec. 2011 KD
US Dollar	8,606,394	5,785,322
UAE Dirhams	750,993	735,484
Jordanian Dinar	361,286	442,768
Saudi Riyal	7,593,869	6,947,739
Bahraini Dinar	1,436,024	1,627,588
Omani Riyal	599,257	207,414
GBP Pound	608,908	-

The foreign currency sensitivity is determined assuming 5% (2011: 5%) reasonably possible increase or decrease in exchange rates for monetary financial assets and liabilities.



## Notes to the consolidated financial statements (continued)

### 30 Risk management objectives and policies (continued)

#### 30.1 Market risk (continued)

##### a) Foreign currency risk (continued)

If the Kuwaiti Dinar had strengthened/weakened assuming the above sensitivity, then this would have the following impact on the profit for the year and equity:

	Profit for the year		Equity	
	31 Dec. 2012 KD	31 Dec. 2011 KD	31 Dec. 2012 KD	31 Dec. 2011 KD
US Dollar	± 140,373	± 273,311	± 570,693	± 562,577
Other currencies	± 212,259	± 182,230	± 355,541	± 216,622

Exposures to foreign exchange rates vary during the year depending on the volume and nature of the transactions. Nonetheless, the analysis above is considered to be representative of the group's exposure to the foreign currency risk. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

##### b) 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. The group is exposed to interest rate risk with respect to fixed deposit, Murabaha investment, murabaha payables and term loans.

The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in interest rates of +100 bps (1%) and -100 bps (1%) (2011: +100 bps (1%) and -100bps (1%)) with effect from the beginning of the year. The calculations are based on the group's financial instruments held at each financial position date. All other variables are held constant. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

	31 Dec. 2012		31 Dec. 2011	
	+ 1 % KD	-1 % KD	+ 1 % KD	-1 % KD
Profit for the year	(97,512)	97,512	(154,472)	154,472

##### c) Price risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified as investments at fair value through statement of income and available-for-sale investments.

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the group.

The equity price risk sensitivity is determined on the following assumptions:

	31 Dec. 2012	31 Dec. 2011
Kuwait market	5%	5%
Other international markets	10%	10%

## Notes to the consolidated financial statements (continued)

### 30 Risk management objectives and policies (continued)

#### 30.1 Market risk (continued)

##### c) Price risk (continued)

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The analysis reflects the impact of positive changes to equity prices in accordance with the above-mentioned equity price risk sensitivity assumptions. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

	Profit for the year		Equity	
	31 Dec. 2012 KD	31 Dec. 2011 KD	31 Dec. 2012 KD	31 Dec. 2011 KD
Financial assets at fair value through statement of income	174,606	209,050	-	-
Available-for-sale investments	-	-	755,956	733,479
<b>Total</b>	<b>174,606</b>	<b>209,050</b>	<b>755,956</b>	<b>733,479</b>

#### 30.2 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. The group's credit policy and exposure to credit risk is monitored on an ongoing basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of its activities. It also obtains security when appropriate.

The group's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the financial position date, as summarized below:

	31 Dec. 2012 KD	31 Dec. 2011 KD
Bank balances	6,059,424	2,780,032
Fixed deposit	150,000	150,000
Accounts receivable and other assets	14,132,689	15,645,680
Murabaha investment	2,998,571	-
<b>Total</b>	<b>23,340,684</b>	<b>18,575,712</b>

Bank balances, fixed deposit and Murabaha investment are maintained with high credit quality financial institutions. Accounts receivable and other assets are neither past due nor impaired.

#### 30.3 Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

## Notes to the consolidated financial statements (continued)

### 30 Risk management objectives and policies (continued)

#### 30.3 Liquidity risk (continued)

The group's maturity profile of financial liabilities using undiscounted cash flows is as follows:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Over 1 year KD	Total KD
<b>As at 31 December 2012</b>					
Term loans	-	2,780,825	2,756,625	2,022,446	7,559,896
Murabaha payables	-	3,313,449	3,342,600	-	6,656,049
Provision for land fill expenses	-	-	-	709,571	709,571
Provision for staff indemnity	-	-	-	4,418,543	4,418,543
Accounts payable and other liabilities	1,903,101	3,897,303	3,563,016	-	9,363,420
	<b>1,903,101</b>	<b>9,991,577</b>	<b>9,662,241</b>	<b>7,150,560</b>	<b>28,707,479</b>
<b>As at 31 December 2011</b>					
Term loans	-	948,146	4,752,263	8,094,069	13,794,478
Murabaha payables	-	1,144,917	1,983,266	17,898	3,146,081
Provision for land fill expenses	-	-	-	680,871	680,871
Provision for staff indemnity	-	-	-	4,030,176	4,030,176
Accounts payable and other liabilities	2,851,873	4,024,788	1,906,646	-	8,783,307
	<b>2,851,873</b>	<b>6,117,851</b>	<b>8,642,175</b>	<b>12,823,014</b>	<b>30,434,913</b>

### 31 Summary of financial assets and liabilities by category

The carrying amounts of the group's financial assets and liabilities as stated in the consolidated statement of financial position may also be categorized as follows:

	31 Dec. 2012		31 Dec. 2011	
	Carrying amount KD	Fair value KD	Carrying amount KD	Fair value KD
Cash and bank balances	6,114,488	-	2,814,244	-
Fixed deposit	150,000	-	150,000	-
Accounts receivable and other assets	14,132,689	-	15,645,680	-
Investments at fair value through statement of income	-	3,492,120	-	4,181,001
Available for sale investments	4,237,731	38,461,788	9,662,799	31,611,462
	<b>24,634,908</b>	<b>41,953,908</b>	<b>28,272,723</b>	<b>35,792,463</b>
Term loans	7,243,696	-	12,504,946	-
Accounts payable and other liabilities	9,363,420	-	8,783,307	-
Murabaha payables	6,656,049	-	3,092,275	-
	<b>23,263,165</b>	<b>-</b>	<b>24,380,528</b>	<b>-</b>

## Notes to the consolidated financial statements (continued)

### 31 Summary of financial assets and liabilities by category (continued)

#### Financial instruments measured at fair value

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy.

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

#### 31 December 2012

	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<i>Investments at fair value through statement of income</i>					
Managed funds and portfolios	a	-	2,910,286	-	2,910,286
Quoted equity securities	b	581,834	-	-	581,834
<i>Available for sale investments:</i>					
Local quoted securities	b	11,814,979	-	-	11,814,979
Local unquoted securities	c	-	-	8,999,532	8,999,532
Foreign quoted securities	b	1,852,072	-	-	1,852,072
Foreign unquoted securities	c	-	-	15,795,205	15,795,205
<b>Net fair value</b>		<b>14,248,885</b>	<b>2,910,286</b>	<b>24,794,737</b>	<b>41,953,908</b>

#### 31 December 2011

	Note	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<i>Investments at fair value through statement of income</i>					
Managed funds	a	-	3,511,342	-	3,511,342
Quoted equity securities	b	669,659	-	-	669,659
<i>Available for sale investments:</i>					
Local quoted securities	b	12,123,081	-	-	12,123,081
Local unquoted securities	c	-	-	5,988,154	5,988,154
Foreign quoted securities	b	1,273,252	-	-	1,273,252
Foreign unquoted securities	c	-	-	12,226,975	12,226,975
<b>Net fair value</b>		<b>14,065,992</b>	<b>3,511,342</b>	<b>18,215,129</b>	<b>35,792,463</b>

There have been no significant transfers between levels 1 and 2 during the reporting period.

## Notes to the consolidated financial statements (continued)

### 31 Summary of financial assets and liabilities by category (continued)

#### Measurement at fair value

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

#### a) Managed funds and portfolios

The underlying investments of managed funds and portfolios primarily comprise of local quoted securities whose fair values have been determined by reference to their quoted bid prices at the reporting date.

#### b) Quoted securities

All the listed equity securities are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

#### c) Unquoted securities

The financial statements include holdings in unlisted securities which are measured at fair value. Fair value is estimated using a discounted cash flow model or other valuation techniques which include some assumptions that are not supportable by observable market prices or rates.

#### d) Financial liabilities

The group does not have any financial liabilities at fair value.

#### Level 3 fair value measurements

The group's financial assets and liabilities classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	Available for sale investments	
	Unquoted securities	Unquoted securities
	31 Dec. 2012	31 Dec. 2011
	KD	KD
Opening balance	18,215,129	12,190,576
Gains or losses recognised in:		
- Consolidated statement of income	(2,086,934)	(1,711,284)
- Other comprehensive income	238,889	(2,298,622)
Purchases	9,205	11,364
Reclassification to Level 3	8,423,639	10,023,095
Sales	(5,191)	-
Closing balance	24,794,737	18,215,129

Gains or losses recognised in the consolidated statement of income (as above) for the year are included in investment and other income and impairment loss on available for sale investments accounts.

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in consolidated statement of income, total assets or total liabilities or total equity.

During the year group reclassified investments amounting to KD8,423,639 (2011: KD10,023,095) to level 3 as a result of the investments becoming valued.

## Notes to the consolidated financial statements (continued)

### 32 Capital management objectives

The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide adequate return to its shareholders through the optimization of the capital structure.

The capital of the group consists of total equity. The group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The group monitors capital on the basis of the return on equity and is calculated as profit for the year divided by total equity as follows:

	31 Dec. 2012 KD	31 Dec. 2011 KD
Profit for the year attributable to the owner of the parent company	5,025,725	4,236,418
Total equity	81,113,465	78,126,686
Return on equity	6.20%	5.42%