Consolidated financial statements and independent auditors' report

National Industries Group Holding – SAK and Subsidiaries

Kuwait

31 December 2012

Contents

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Independent auditors' report

To the shareholders of
National Industries Group Holding – SAK
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Industries Group Holding – (A Kuwaiti Shareholding Company) 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 Group Holding 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 ended 31 December 2012 that might have had a material effect on the business or financial position of the Company.

Abdullatif M. Al-Aiban (CPA)
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of Grant Thornton – Al-Qatami, Al-Aiban & Partners

Abdullatif A.H. Al-Majid
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of Parker Randall (Allied Accountants)

Kuwait
18 March 2013

Consolidated statement of income

	Note	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000 (Restated)
Continuing operations			
Sales		107,386	99,909
Cost of sales		(81,296)	(74,620)
Gross profit		26,090	25,289
Income from investments	8	45,980	24,838
Share of results of associates	17	16,647	14,464
Loss on disposal of associates	17	(154)	-
Dilution loss on associate	17	(253)	-
Realised gain/(loss) on disposal of investment properties		60	(353)
Changes in fair value of investment properties	18	2,025	460
Interest and other income	9	7,336	7,516
Distribution costs		(4,803)	(4,679)
General, administrative and other expenses		(22,125)	(21,351)
Reversal of provision for onerous property leases and dilapidations	29	1,939	2,068
(Loss)/gain on foreign currency exchange		(3,232)	2,189
		69,510	50,441
Finance costs	11	(38,904)	(41,135)
Impairment in value of available for sale investments	19c	(12,499)	(40,061)
Effect of discounting on accounts receivable	21b	-	(867)
Impairment in value of investment in associates		(584)	-
Impairment in value of receivables and other assets	21c	(1,381)	-
Profit/(loss) before taxation and other statutory contributions		16,142	(31,622)
Taxation and other statutory contributions	12	(1,143)	(1,704)
Profit/(loss) for the year from continuing operations		14,999	(33,326)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	36	2,758	(432)
Profit/(loss) for the year	13	17,757	(33,758)
Attributable to :			
Owners of the parent		12,981	(28,483)
Non-controlling interests		4,776	(5,275)
		17,757	(33,758)
Basic and diluted earnings/(loss) per share attributable to the owners of the parent	14		
- From continuing operations		8 Fils	(23) Fils
- From discontinued operations		2 Fils	-
Total		10 Fils	(23) Fils

The notes set out on pages 10 to 70 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000 (Restated)
Profit/(loss) for the year	**17,757**	(33,758)
Other comprehensive income:		
Exchange differences arising on translation of foreign operations	**997**	(233)
Available for sale investments		
- Net changes in fair value arising during the year	**(5,671)**	(73,535)
- Transferred to consolidated statement of income on disposals	**(12,884)**	(13,856)
- Transferred to consolidated statement of income on impairment	**12,499**	40,061
Share of other comprehensive income of associates		
- Changes in fair value	**4,092**	(12,588)
- Exchange differences	**(2,247)**	(1,670)
Defined benefit plan actuarial (losses)/gains	**(2,719)**	146
Total other comprehensive income for the year	**(5,933)**	(61,675)
Total comprehensive income for the year	**11,824**	(95,433)
Total comprehensive income for the year attributable to:		
Owners of the parent	**10,625**	(85,519)
Non-controlling interests	**1,199**	(9,914)
	11,824	(95,433)

The notes set out on pages 10 to 70 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Note	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000 (Restated)	31 Dec. 2010 KD '000 (Restated)
Assets				
Non-current assets				
Goodwill	15	**7,083**	6,760	6,718
Property, plant and equipment	16	**63,994**	65,316	67,201
Investment in associates	17	**287,497**	283,126	272,494
Investment properties	18	**25,259**	13,912	36,642
Available for sale investments	19	**698,095**	739,325	790,353
Accounts receivable	21	**1,969**	7,848	-
Total non-current assets		**1,083,897**	1,116,287	1,173,408
Current assets				
Inventories	20	**25,644**	23,602	20,053
Available for sale investments	19	**79,847**	86,713	104,514
Accounts receivable and other assets	21	**62,176**	68,224	59,182
Murabaha and wakala investments	22	**11,293**	8,413	15,263
Investments at fair value through profit or loss	23	**61,992**	81,816	119,118
Short-term deposits	32	**6,129**	79,041	104,565
Bank balances and cash	32	**57,072**	35,724	38,002
Total current assets		**304,153**	383,533	460,697
Total assets		**1,388,050**	1,499,820	1,634,105
Equity and liabilities				
Equity attributable to owners of the parent				
Share capital	24	**129,510**	129,510	129,510
Treasury shares	25	**(30,375)**	(30,375)	(30,804)
Share premium	24	**122,962**	151,719	152,691
Cumulative changes in fair value	26a	**140,199**	139,662	195,732
Other components of equity	26b	**16,921**	17,123	59,081
Retained earning/(accumulated losses)		**2,911**	(36,136)	(48,997)
Equity attributable to owners of the parent		**382,128**	371,503	457,213
Non-controlling interests	26c	**141,790**	144,686	174,216
Total equity		**523,918**	516,189	631,429
Non-current liabilities				
Trust certificates issued		**-**	-	133,523
Long-term borrowings	28	**523,935**	394,993	165,688
Leasing creditors		**152**	300	446
Provisions	29	**15,139**	15,146	17,396
Total non-current liabilities		**539,226**	410,439	317,053
Current liabilities				
Accounts payable and other liabilities	30	**50,686**	56,076	43,387
Trust certificates issued – current portion	27	**-**	132,549	14,010
Short-term borrowings	31	**256,323**	360,911	594,948
Due to banks	32	**17,897**	23,656	33,278
Total current liabilities		**324,906**	573,192	685,623
Total liabilities		**864,132**	983,631	1,002,676
Total equity and liabilities		**1,388,050**	1,499,820	1,634,105

Sa'ad Mohammed Al-Sa'ad
Chairman & Managing Director

The notes set out on pages 10 to 70 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Equity attributable to owners of the parent								
	Share Capital KD '000	Treasury shares KD '000	Share premium KD '000	Cumulative changes in fair value KD '000	Other components of equity (Note 26b) KD '000	(Accumulated losses)/ retained earnings KD '000	Sub-Total KD '000	Non-controlling interests KD '000	Total KD '000
Balance as at 1 January 2012 – as previously stated	129,510	(30,375)	151,719	139,662	16,931	(30,524)	376,923	144,686	521,609
Impact of change in accounting policy (refer note 35)	-	-	-	-	192	(5,612)	(5,420)	-	(5,420)
Restated balance at 1 January 2012	**129,510**	**(30,375)**	**151,719**	**139,662**	**17,123**	**(36,136)**	**371,503**	**144,686**	**516,189**
Transactions with owners									
Offset of accumulated losses (refer note 24b)	-	-	(28,757)	-	(1,767)	30,524	-	-	-
Dividend paid to non-controlling interest by subsidiaries	-	-	-	-	-	-	-	(3,419)	(3,419)
Other net changes in non-controlling interests	-	-	-	-	-	-	-	(676)	(676)
Total transactions with owners	-	-	(28,757)	-	(1,767)	30,524	-	(4,095)	(4,095)
Comprehensive income									
Profit for the year	-	-	-	-	-	12,981	12,981	4,776	17,757
Other comprehensive income for the year [Actuarial losses and others (refer note 26b)	-	-	-	537	(174)	(2,719)	(2,356)	(3,577)	(5,933)
Total comprehensive income for the year	-	-	-	537	(174)	10,262	10,625	1,199	11,824
Reserve transfers of subsidiaries	-	-	-	-	1,739	(1,739)	-	-	-
Balance at 31 December 2012	**129,510**	**(30,375)**	**122,962**	**140,199**	**16,921**	**2,911**	**382,128**	**141,790**	**523,918**

The notes set out on pages 10 to 70 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

	Equity attributable to owners of the parent								
	Share Capital KD '000	Treasury shares KD '000	Share premium KD '000	Cumulative changes in fair value KD '000	Other components of equity (Note 26b) KD '000	Accumulated losses KD '000	Sub-Total KD '000	Non-controlling interests KD '000	Total KD '000
Balance as at 1 January 2011 as - previously reported	129,510	(30,804)	152,691	195,732	59,081	(42,965)	463,245	174,216	637,461
Impact of changes in accounting policy (refer note 35)	-	-	-	-	-	(6,032)	(6,032)	-	(6,032)
Restated balance as at 1 January 2011	129,510	(30,804)	152,691	195,732	59,081	(48,997)	457,213	174,216	631,429
Transactions with owners									
Purchase of treasury shares	-	(728)	-	-	-	-	(728)	-	(728)
Disposal of treasury shares	-	1,157	-	-	-	-	1,157	-	1,157
Loss on disposal of treasury shares	-	-	-	-	(620)	-	(620)	-	(620)
Offset of accumulated losses (refer note 26b)	-	-	(972)	-	(41,993)	42,965	-	-	-
Payments to non-controlling interests of a subsidiary due to capital reduction (refer note 26c)	-	-	-	-	-	-	-	(18,190)	(18,190)
Dividend paid to non-controlling interest by subsidiaries	-	-	-	-	-	-	-	(1,403)	(1,403)
Other net changes in non-controlling interests	-	-	-	-	-	-	-	(23)	(23)
Total transactions with owners	-	429	(972)	-	(42,613)	42,965	(191)	(19,616)	(19,807)
Comprehensive income									
Loss for the year – as restated	-	-	-	-	-	(28,483)	(28,483)	(5,275)	(33,758)
Other comprehensive income for the year - as restated [Actuarial gain and others (refer note 26b)]	-	-	-	(56,070)	(1,112)	146	(57,036)	(4,639)	(61,675)
Total comprehensive income for the year	-	-	-	(56,070)	(1,112)	(28,337)	(85,519)	(9,914)	(95,433)
Reserve transfers of subsidiaries	-	-	-	-	1,767	(1,767)	-	-	-
Restated balance as at 31 December 2011	**129,510**	**(30,375)**	**151,719**	**139,662**	**17,123**	**(36,136)**	**371,503**	**144,686**	**516,189**

The notes set out on pages 10 to 70 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

	Note	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000 (Restated)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(7,429)	(5,143)
Proceeds from disposal of property, plant and equipment		160	1,430
Proceeds from disposal of investment properties		50	9,914
Additions to investment properties		(10,462)	(3,698)
Investment in an associates		(2,910)	(4,353)
Dividend received from associate companies		7,779	2,845
Proceeds from disposal of associate		6,849	-
Proceeds from redemption of units of associate		4,078	-
(Increase)/decrease in wakala investments maturing after three months		(3,880)	7,350
Decrease in short term deposits maturing after three months		-	150
Increase in blocked deposits		(7,581)	(105)
Purchase of available for sale investments		(20,851)	(41,740)
Proceeds from sale of available for sale investments		65,627	50,824
Dividend income received from available for sale investments		20,016	13,883
Interest/profit on bank balances, short-term deposits, wakala and murabaha investments		1,550	2,545
Net cash from investing activities		52,996	33,902
FINANCING ACTIVITIES			
Net increase in long-term borrowings		74,942	236,315
Finance lease payments		(131)	(247)
Net decrease in short-term borrowings and trust certificates		(183,137)	(256,031)
Dividend paid to the owners of the parent		(109)	(468)
Finance costs paid		(40,254)	(42,308)
Purchase of treasury shares		-	(728)
Proceeds from sale of treasury shares		-	537
Decrease in non-controlling interests		(4,095)	(12,034)
Net cash used in financing activities		(152,784)	(74,964)
Net decrease in cash and cash equivalents		(54,398)	(17,634)
Translation difference		12	(1)
		(54,386)	(17,635)
Cash and cash equivalents at beginning of the year		91,994	109,629
Cash and cash equivalents at end of the year	32	37,608	91,994

The notes set out on pages 10 to 70 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Incorporation and activities

National Industries Group Holding – SAK ("the parent company") was incorporated in 1961 as a Kuwaiti shareholding company in accordance with the Commercial Companies Law in the State of Kuwait and in April 2003, its status was transformed to a "Holding Company". The parent company along with its subsidiaries are jointly referred to as "the Group". The parent company's shares are traded on the Kuwait Stock Exchange and Dubai Financial Market.

The main objectives of the Company are as follows:

- Owning stocks and shares in Kuwaiti or non-Kuwaiti shareholding companies and shares in Kuwaiti or non-Kuwaiti limited liability companies and participating in the establishment of, lending to and managing of these companies and acting as a guarantor for these companies.
- Lending money to companies in which it owns 20% or more of the capital of the borrowing company, along with acting as guarantor on behalf of these companies.
- Owning industrial equities such as patents, industrial trademarks, royalties, or any other related rights, and franchising them to other companies or using them within or outside the State of Kuwait.
- Owning real estate and moveable property to conduct its operations within the limits as stipulated by law.
- Employing excess funds available with the group by investing them in investment and real estate portfolios managed by specialised companies.

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 this law comes into effect shall 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 417, Safat 13005, State of Kuwait.

The board of directors of the parent company approved these consolidated financial statements for issuance on 18 March 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 are prepared under the historical cost convention modified to include the revaluation of freehold and leasehold properties, the measurement at fair value of investments at fair value through profit or loss, available for sale financial assets and investment properties.

The consolidated financial statements are presented in Kuwaiti Dinars (KD) and all values are rounded to the nearest thousand (KD '000), except when otherwise indicated.

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

Consequent to the change in accounting policy referred to in 4.1 below which has lead to the restatement of comparative amounts, the Group has presented the restated consolidated financial position as of 1 January 2011 (i.e 31 December 2010) and the relevant notes for the third statement of financial position which have been materially affected due to the restatement of comparatives as referred to in note 35.

3 Statement of compliance

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

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 the previous year, except for the change in accounting policy which resulted consequent to the early adoption of IAS 19 – Employees Benefits as referred to below.

4.1 New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Group.

Early adoption of IAS 19 Employee Benefits – amendments

The Group has elected to adopt the new provisions of IAS 19 (revised June 2011) 'Employee Benefits' earlier than required by the Accounting Standard (effective for annual periods beginning on or after 1 January 2013) and the change in accounting policy is detailed in note 35.

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.

Standard	*Effective for annual periods beginning*
IAS 1 Presentation of Financial Statements – amendment	1 July 2012
IAS 27 Consolidated and Separate Financial Statements - Revised as IAS 27 Separate Financial Statements	1 January 2013
IAS 28 Investments in Associates - Revised as IAS 28 Investments in Associates and Joint Ventures	1 January 2013
IFRS 9 Financial Instruments	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IAS 32 Financial Instruments: Presentation – amendments	1 January 2014
IFRS 7 Financial Instruments: Disclosures – amendments	1 January 2013
Annual Improvements 2009-2011	1 January 2013

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 however, it will not affect the measurement or recognition of such items.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2.2 IAS 27 Consolidated and Separate Financial statements – Revised as IAS 27 Separate Financial Statements
As a consequence of the new IFRS 10 and IFRS 12, IAS 27 now deals only with separate financial statements.

4.2.3 IAS 28 Investments in Associates – Revised as IAS 28 Investments in Associates and Joint Ventures

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 brings investments in joint ventures into its scope. However, the equity accounting methodology under IAS 28 remains unchanged.

4.2.4 IFRS 9 Financial Instruments
The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2015. Further chapters dealing with impairment methodology and hedge accounting are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address application issues.

Although earlier application of this standard is permitted, the Technical Committee of the Ministry of Commerce and Industry of Kuwait decided on 30 December 2009, to postpone this early application till further notice.

Management has yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

4.2.5 Consolidation Standards
A package of consolidation standards are effective for annual periods beginning or after 1 January 2013. Information on these new standards is presented below. The Group's management has yet to assess the impact of these new and revised standards on the Group's consolidated financial statements.

4.2.5.1 IFRS 10 Consolidated Financial Statements
IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. It revises the definition of control together with accompanying guidance to identify an interest in a subsidiary. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore change the scope of consolidation.However, the requirements and procedures of consolidation and the accounting for any non-controlling interests and changes in control remain the same. Management's provisional analysis is that IFRS 10 will not change the classification (as subsidiaries or otherwise) of any of the Group's existing investees at 31 December 2012.

4.2.5.2 IFRS 11 Joint Arrangements
IFRS 11 supersedes IAS 31 Interests in Joint Ventures (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

4.2.5.3 IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments including subsidiaries, joint arrangements, associates and unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

Transition guidance for IFRS 10, 11, 12
Subsequent to issuing the new standards the IASB made some changes to the transitional provisions in IFRS 10, IFRS 11 and IFRS 12. The guidance confirms that the entity is not required to apply IFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also makes changes to IFRS 11 and IFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides additional relief by removing the requirement to present comparatives for the disclosures relating to unconsolidated structured entities for any period before the first annual period for which IFRS 12 is applied.

The new guidance is also effective for annual periods on or after 1 January 2013.

4.2.6 IFRS 13 Fair Value Measurement
IFRS 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair valued. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to complete its assessment of their impact on the Group's consolidated financial statements.

4.2.7 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.

4.2.8 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.

4.2.9 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.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

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.

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 in interim financial information 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 Summary of significant accounting policies

The significant accounting policies and measurements bases adopted in the preparation of the consolidated financial statements are summarised 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. The financial statements of the subsidiaries are prepared for reporting dates which are typically not more than three months from that of the Parent Company, using consistent accounting policies. Adjustments are made for the effect of any significant transactions or events that occur between that date and the reporting date of the Parent Company's financial statements. The details of the significant subsidiaries are set out in Note 7 to the consolidated financial statements.

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

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

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

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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensives income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within other comprehensive income.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.2. Business combinations (continued)

Goodwill is stated after separate recognition of identifiable intangible assets. It 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 (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

5.3. Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. See note 5.2 for information on how goodwill is initially determined. Goodwill is carried at cost less accumulated impairment losses. Refer to note 5.13 for a description of impairment testing procedures.

5.4. 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 share of results of an associate is shown on the face of the consolidate statements of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

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.

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

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.4 Investment in associates (continued)
Upon loss of significant influence over the associate, the Group measures and recognises any retained 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 retained investment and proceeds from disposal are recognised in the consolidated statement of income.

5.5. Segment reporting
The Group has three operating segments: Investment, building materials and specialist engineering 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.

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.

5.6. Profit or loss from discontinued operations
A discontinued operation is a component of the Group that has either been disposed of, or is classified as held for sale, and:
- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

Profit or loss from discontinued operations, including prior year components of profit or loss, is presented in a single amount in the consolidated statements of income. This amount, which comprises the post-tax profit or loss of discontinued operations and the post tax gain or loss resulting from the measurement and disposal of assets classified as assets held for sale, is further analysed in note 36.

The disclosures for discontinued operations in the prior year relate to all operations that have been discontinued by the reporting date of the latest period presented.

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

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. The following specific recognition criteria should also be met before revenue is recognised;

5.7.1. 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.

Revenue from the sale of goods with no significant service obligation is recognised on delivery.

When goods are sold together with customer loyalty incentives, the consideration receivable is allocated between the sale of goods and sale of incentives based on their fair values. Revenue from sale of incentives is recognised when they are redeemed by customers in exchange for products supplied by the Group.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.7.2. Rendering of services

The Group generates revenues from after-sales service and maintenance, consulting and construction contracts. Consideration received for these services is initially deferred, included in other liabilities and is recognised as revenue in the period when the service is performed.

In recognising after-sales service and maintenance revenues, the Group considers the nature of the services and the customer's use of the related products, based on historical experience.

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

The Group earns fees and commission income from diverse range of asset management, investment banking, custody and brokerage services provided to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management fees.

- *Fee income from providing transaction services*

Fees arising for rendering specific advisory services, brokerage services, equity and debt placement transactions for a third party or arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

5.7.3. 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.

5.7.4. Dividend income

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

5.7.5. Revenue from sale of investment properties

Revenue from sale of investment properties is recognised on completion of sale contract and after transferring the risk and rewards associated with the real estate to the purchaser and the amount of revenue can be reliably measured.

5.8. Operating expenses

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

5.9. 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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.10. Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses. Depreciation is calculated to write off the cost or valuation, less the estimated residual value of property, plant and equipment, on a straight-line basis over their estimated useful lives as follows:

Freehold buildings	Lower of 50 years or remaining useful life
Long leasehold property	Lower of 50 years or remaining lease term
Short leasehold property	Lease term
Property on leasehold land	4 to 20 years
Plant and machinery	1 to 15 years
Motor vehicles	2 to 10 years
Furniture and equipment	4 to 10 years

Any increase arising on revaluation is credited directly to other comprehensive income as "revaluation reserve" except to the extent where the increase reverses a revaluation decrease related to the same asset for which a decrease in valuation has previously been recognised as an expense, it is credited to the consolidated statement of income. Any decrease in the net carrying amount arising on revaluation is charged directly to the consolidated statement of income, or charged to the revaluation reserve to the extent that the decrease is related to an increase for the same asset which was previously recorded as a credit to the revaluation surplus.

Depreciation on the re-valued properties is charged to the consolidated statement of income over their remaining estimated useful lives and an amount equivalent to the excess depreciation charge relating to the increase in carrying amount is transferred each year from the revaluation reserve to retained earnings.

No depreciation is provided on freehold land. Properties in the course of construction for production or administrative purposes are carried at cost, less any recognised impairment loss. Depreciation of these assets, which is on the same basis as other property assets, commences when the assets are ready for their intended use.

5.11. Leased assets

5.11.1. Finance lease

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards of ownership of the leased asset. Where the Group is a lessee in this type of arrangement, the related asset is recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance lease liability. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

See note 5.10 for the depreciation methods and useful lives for assets held under finance lease. The corresponding finance lease liability is reduced by lease payments net of finance charges. The interest element of lease payments represents a constant proportion of the outstanding capital balance and is charged to profit or loss, as finance costs over the period of the lease.

5.11.2. Operating lease

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term except where the lease terms are onerous in which case the provision is made for the net present value of the probable liability. Associated costs, such as maintenance and insurance, are expensed as incurred.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.12. Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation, and are accounted for using the fair value model.

Investment properties are initially measured at cost, including transaction costs. Subsequently, investment properties are re-measured at fair value on an individual basis based on valuations by independent real estate valuers and are included in the consolidated statement of financial position. Changes in fair value are taken to the consolidated statement of income.

Investment properties are de-recognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

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

5.13. Impairment testing of goodwill and non financial assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from the asset or each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each asset or cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.14. Financial instruments

5.14.1. 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.

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.

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

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

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.

5.14.2. Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss (FVTPL)
- held-to-maturity (HTM) investments
- available-for-sale (AFS) financial assets.

All financial assets except for those at FVTPL 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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.14.2. Classification and subsequent measurement of financial assets (continued)

All material income and expenses relating to financial assets that are recognised in profit or loss are presented under a separate headings in the consolidated statement of income.

- ***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. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. 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.

The Group categorises loans and receivables into following categories:

- *Murabaha investments / receivables*

Murabaha is an Islamic transaction involving the purchase and immediate sale of an asset at cost plus an agreed profit. The amount due is settled on a deferred payment basis. When the credit risk of the transaction is attributable to a financial institution, the amount due under Murabaha contracts is classified as a Murabaha investment. Whereas, when the credit risk of transaction is attributable to counterparties other than banks and financial institutions, the amount due is classified as Murabaha receivable.

Murabaha receivables which arise from the Group's financing of long-term transactions on an Islamic basis are classified as Murabaha receivables originated by the Group and are carried at the principal amount less provision for credit risks to meet any decline in value. Third party expenses such as legal fees, incurred in granting a Murabaha are treated as part of the cost of the transaction.

All Murabaha receivables are recognized when the legal right to control the use of the underlying asset is transferred to the customer.

- *Wakala investments*

Wakala is an agreement whereby the Group provides a sum of money to a financial institution under an agency arrangement, who invests it according to specific conditions in return for a fee. The agent is obliged to return the amount is case of default, negligence or violation of any terms and conditions of the Wakala.

- *Loans and advances*

Loans and advances are financial assets originated by the Group by providing money directly to the borrower that have fixed or determinable payments and are not quoted in an active market.

- *Bank balances cash and Short term deposits*

Cash on hand and demand deposits are classified under bank balances and cash and short term deposits represent deposits placed with financial institutions with a maturity of less than one year.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.14.2. Classification and subsequent measurement of financial assets (continued)

- *Receivables and other financial assets*

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.

Loans and recievables which are not categorised under any of the above are classified as "Other recievables/Other financial assets"

- ***Financial assets at*** FVTPL

Classification of investments as financial assets at FVTPL depends on how management monitor the performance of these investments. Investments at FVTPL are either "held for trading" or "designated" as such on initial recognition.

The group classifies investments as trading if they are acquired principally for the purpose of selling or are a part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. 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 statement of income in the management accounts, they are as designated at FVTPL upon initial recognition.

All derivative financial instruments fall into the category of FVTPL, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

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. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

- ***HTM investments***

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as HTM if the Group has the intention and ability to hold them until maturity.

HTM investments are measured subsequently at amortised cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognised in profit or loss

The group currently has not designated any assets in to this category.

- ***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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.14.2. Classification and subsequent measurement of financial assets (continued)

- ***AFS financial assets (continued)***

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.

AFS financial assets are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

5.14.3. Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include trust certificates issued, borrowings, leasing creditors, due to banks, trade payables and other liabilities s and derivative financial instruments.

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

- ***Financial liabilities other than at fair value through profit or loss(FVTPL)***

These are stated at amortised cost using effective interest rate method. The Group categorises financial liabilities other than at FVTPL into the following categories:

- *Trust certificates issued*

Trust certificates issued (Mudarabaha and Musharaka sukuk) are stated on the consolidated statement of financial position at their principal amount, net of directly related costs of issuing the certificates to the extent that such costs have not been amortised. These costs are amortised through the consolidated statement of income over the life of the certificates using the effective interest rate method.

- *Borrowings*

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

- *Wakala payables*

Wakala payables represent short-term borrowings under Islamic principles, whereby the group receives funds for the purpose of financing its investment activities and are stated at amortised cost.

- *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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.14.3. Classification and subsequent measurement of financial liabilities (continued)

- *Leasing and hire purchase payables*

Assets acquired under finance leases and hire purchase arrangements are capitalised and the related liabilities, excluding finance charges. Finance charges in respect of such liabilities are charged to the consolidated statement of income as incurred.

- *Accounts payables and other financial liabilities*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not, and classified as trade payables. Financial liabilities other than at FVTPL which are not categorised under any of the above are classified as "Other financial liabilities"

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss, are included within finance costs or other income.

- ***Financial liabilities at fair value through profit or loss(FVTPL)***

Financial liabilities at FVTPL are either held for trading or designated as such on initial recognition.

Financial liabilities held for trading or designated at FVTPL, are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

- ***Derivative financial instruments***

The group uses derivative financial instruments, such as interest rate swaps to mitigate its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at cost, being the fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using valuation quotes provided by financial institutions, based on prevailing market information. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The group does not adopt hedge accounting, and any realised and unrealised (from changes in fair value) gain or losses are recognised directly in the consolidated statement of income.

5.14.4. 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.

5.14.5. 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.

5.14.6. 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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.14.7. 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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 39.

5.15. 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. Costs of ordinarily interchangeable items are assigned using the weighted average cost formula.

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

5.16. 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.

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

Other components of equity include the following:

- revaluation reserve – comprises gains and losses from the revaluation of land and buildings
- 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

Retained earnings/(accumulated losses) include all current and prior period retained profits/ accumulated losses. All transactions with owners of the parent company 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.

5.17. 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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.17. Treasury shares (continued)

When the treasury shares are reissued, gains are credited to a separate account in equity, (the "gain on sale of 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.

5.18. 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.

5.19. Foreign currency translation

5.19.1. 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.

5.19.2. 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. Translation difference on non-monetary asset classified as, "fair value through profit or loss" is reported as part of the fair value gain or loss in the consolidated statement of income and "available for sale" are reported as part of the cumulative change in fair value reserve within other comprehensive income.

5.19.3. 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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.19.3. Foreign operations (continued)

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.

5.20. End of service indemnity

The parent and its local subsidiaries 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.

5.21. Pensions (Related to the foreign subsidiaries)

Contributions are paid to both defined benefit and defined contribution pension schemes in accordance with the recommendations of independent actuaries and advisors.

Contributions to defined contribution schemes are charged to the consolidated statement of income on an accrual basis.

The Group has elected to adopt the new provisions of IAS 19 (revised June 2011) 'Employee Benefits' and the new accounting policy for the defined benefit schemes is as follows.

In respect of defined benefit schemes a defined benefit liability (or asset) is recognised in the consolidated statement of financial position and it is calculated as the present value of the defined benefit obligation using the projected unit credit method plus any unrecognised actuarial gains or losses less any past service cost not recognised less the market value of the plan assets.

Pension expense is charged to the consolidated statement of income and is calculated as the aggregate of current service cost (using the projected unit credit method), a net interest cost on the discounted defined benefit obligation net of the expected return on plan assets, recognised actuarial gains and losses, recognised past service costs and the effect of curtailments or settlements.

Actuarial gains or losses are recognised in full in other comprehensive income.

The new accounting policy has been adopted retrospectively and the comparative amounts have been restated, see note 34 and 35.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.22. Share-based Payment

Certain employees of the group receive remuneration in the form of share-based payment transactions, whereby the employees render services in exchange for shares ("equity settled transactions").

Equity-settled transactions

The cost of equity-settled transactions with employees is measured under the intrinsic value method. Under this method, the cost is determined by comparing the period end market value of the company's shares with the issue price. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the shares vest.

5.23. Taxation

5.23.1. 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. As per law, allowable deductions include, share of profits of listed associates and cash dividends from listed companies which are subjected to NLST.

5.23.2. 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 Kuwaiti shareholding associates and subsidiaries and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

5.23.3. 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.

For the year ended 31 December 2011 and 2012, the Parent Company has no liability towards NLST, KFAS and Zakat due to tax losses incurred. Under the NLST and Zakat regulations no carry forward of losses to the future years nor any carry back to prior years is permitted.

5.23.4. Taxation on overseas subsidiaries

Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate.

Deferred taxation is provided in respect of all temporary differences. Deferred tax assets are recognised in respect of unutilised tax losses when it is probable that the loss will be used against future profits.

5.24. Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and bank balances, short-term deposits, murabaha and wakala investments and short term highly liquid investments maturing within three months from the date of inception less due to banks and blocked bank balances.

5.25. Fiduciary assets

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

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. Such judgement determines whether it is subsequently measured at cost, amortised cost or at fair value and if the changes in fair value of instruments are reported in the statement of income or other comprehensive income.

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 profit or loss.

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.

6.1.2. Classification of real estate

Management decides on acquisition of a real estate whether it should be classified as trading or investment property. Such judgement at acquisition determines whether these properties are subsequently measured at cost or net realisable value whichever is lower or fair value and if the changes in fair value of these properties are reported in the statement of income or other comprehensive income.

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

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

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.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.2.1 Impairment of goodwill and other intangible assets

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

6.2.2. 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.

During the 2012 the group recognised an impairment loss of KD584 thousand against investments in associates.

6.2.3. 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. In 2012 the Group recognised an impairment loss on available for sale investments (see note 19).

6.2.4. Impairment of loans and receivables

The group's management reviews periodically items classified as loans and receivables (including wakala investments note 22) to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty. In 2012 the Group has recognised impairment losses on loans and receivables of KD1,381 thousand (2011: Nil).

6.2.5. 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.

At the financial position date, gross inventories were KD27,049 thousand (2011: KD25,672 thousand), with provision for old and obsolete inventories of KD1,405 thousand (2011: KD2,070 thousand). Any difference between the amounts actually realised in future periods and the amount expected will be recognised in the consolidated statement of income.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.2.6. 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 and other obsolescence that may change the utility of certain software and property, plant and equipment.

6.2.7. 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.

6.2.8. Revaluation of investment properties

The group carries its investment properties at fair value, with changes in fair value being recognised in the consolidated statement of income. The group engaged independent valuation specialists to determine fair values and the valuers have used valuation techniques to arrive at these fair values. These estimated fair values of investment properties may vary from the actual prices that would be achieved in a arm's length transaction at the reporting date.

6.2.9. Defined benefits obligation

Management's estimate of the defined benefit obligation is based on number of critical underlying assumption such as standard rates of inflation, mortality, discount rate and anticipation of future pension increases. Variation in these assumptions may significantly impact the defined benefit obligations and amount and the annual defined benefits expenses (as analysed in note 34).

7 Subsidiary companies

The significant consolidated subsidiaries as at 31 December 2012 and 2011 are as follows:

	Country of registration	Percentage ownership 31 Dec. 2012 %	31 Dec. 2011 %
Al Durra National Real Estate – KSC (Closed)	Kuwait	100	100
Proclad Group Limited	UAE	100	100
National Combined Industries Holding Company for Energy – KSC (Closed)	Kuwait	100	100
Pearl National Holding – KSC (Closed)	Kuwait	100	100
NIG (Guernsey) Limited	Guernsey	100	100
NIC Holdings (UK) Plc	United Kingdom	100	100
BI Group Plc	United Kingdom	100	100
Economic Holding Company – KCS (Closed)	Kuwait	100	100
NIC Holdings (Guernsey) Limited	Guernsey	100	100
NI Group (Bahrain) EC	Bahrain	100	100
Eagle Proprietary Investments Limited	UAE	100	100
Pearl Offshore Enterprises Limited	BVI	100	100
Denham Investment LTD	Cayman Islands	85	85
Ikarus Petroleum Industries Company – SAK (Closed)	Kuwait	72	72
National Industries Company KSC(Closed)	Kuwait	51	51
Noor Financial Investment Company – KSC (Closed)	Kuwait	51	51
Noor Telecommunication Company – KSC (Closed)	Kuwait	51	51

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

a. Disposal of subsidiaries - 2012

George Wilson Industries Limited

On 5 September 2012, the Group sold 50% of the share capital of George Wilson Industries Limited (a subsidiary of NIG (Guernsey) Limited ('GWI'), retaining the remaining 50% of the share capital within the Group which is subject to a put and call option. Accordingly the change in share ownership is reflected within the consolidated financial statements as the disposal of a subsidiary and the acquisition of an investment in associate. At the date of disposal, the carrying amounts of GWI's net assets disposed of were as follows:

	KD '000
Total assets	1,335
Total liabilities	(1,716)
Total net liabilities	(381)
Sale considerations	
- Total consideration received in cash	-
- Deferred consideration on the initial 50%	800
- Value of the put and call option on the remaining 50%	1,169
Total consideration receivable	1,969
Profit recognised in the consolidated statement of income under discontinued operations (see note 36).	2,350

Consideration

Deferred consideration of KD1,969 thousand is held in other debtors and is due after more than one year.

BI Composites Limited

Following continued difficult periods of trading, the Group took the decision to put its subsidiary, BI Composites Limited (a subsidiary of BI Group PLC) ('Composites'), into administration on 30 November 2012. This results in the Group giving up its control of the company and the transaction has been accounted for as a disposal of 100% of the share capital of Composites. At the date of the effective disposal, the carrying amounts of Composite's net assets were as follows:

	KD '000
Total assets	1,306
Total liabilities	(2,090)
Total net liabilities	(784)
Profit recognised in the consolidated statement of income, under discontinued operations (see note 36)	784

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

Consideration
As the company was put into administration there is no consideration received or receivable.

b. Certain non-controlling interests in the above subsidiary companies are held on behalf of the parent company by third party nominees.

c. Pearl Offshore Enterprises Limited, is a special purpose vehicle (SPV) which was incorporated during the previous year and certain assets and liabilities of the parent company are held by the SPV.

8 Income from investments

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Dividend income:		
- From investments at fair value through profit or loss	818	2,282
- From available for sale investments	20,016	13,883
Profit on sale of available for sale investments	20,312	25,911
Realised gain/(loss) on investments at fair value through profit or loss	1,795	(2,622)
Unrealised gain/(loss) on investments at fair value through profit or loss	3,039	(14,616)
	45,980	24,838

9 Interest and other income

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Management and placement fees	734	1,794
Interest/profit on bank balances, short term deposits, murabaha and wakala investments	1,528	2,449
Effect of unwinding of discount on receivables	407	-
Net gain/(loss) from dealing in interest rate swaps	14	(37)
Income from financing of future trade by customers	278	479
Net gain/(loss) from hotel/transportation business (a)	1,019	(306)
Rental income	1,271	984
Others	2,085	2,153
	7,336	7,516

a) Net income/(loss) from hotel/transportation business (relating to a foreign subsidiary) is as follows:

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Revenue from services	2,574	690
Less: Direct operating costs	(1,555)	(996)
	1,019	(306)

Notes to the consolidated financial statements (continued)

10 Net gain or (loss) on financial assets

Net gain or (loss) on financial assets, analysed by category, is as follows:

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Loans and receivables		
- bank balances and short term deposits	1,365	2,412
- murabaha and wakala investments	163	37
- account receivable and other assets	278	479
- impairment in value of receivable and other assets	(1,381)	-
- effect of discounting on accounts receivable	-	(867)
- effect on unwinding of discount on receivable	407	-
At fair value through profit or loss		
- held for trading	3,192	(7,570)
- designated as such on initial recognition	2,460	(7,386)
- net gain/(loss) from dealing in interest rate swaps	14	(37)
Available for sale investments		
- recognised in other comprehensive income (including non-controlling interests share)	(6,056)	(47,330)
- recycled from other comprehensive income to consolidated statement of income		
• On impairment	(12,499)	(40,061)
• On disposal	12,884	13,856
- recognised directly in consolidated statement of income	27,444	25,939
	28,271	(60,528)
Net gain/(loss) recognised in the consolidated statement of income	34,327	(13,198)
Net loss recognised in the other comprehensive income	(6,056)	(47,330)
	28,271	(60,528)

11 Finance costs

Finance costs relate mainly to due to banks, short and long term borrowings, trust certificates issued and lease creditors. All these financial liabilities are stated at amortised cost.

12 Taxation and other statutory contributions

(a) Taxation of foreign subsidiaries*

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Current tax expense		
Current year charge	(304)	(418)
Deferred tax expense		
Current year charge	(3)	(10)
	(307)	(428)

Notes to the consolidated financial statements (continued)

12 Taxation and other statutory contributions (continued)

(b) KFAS, NLST and Zakat of local subsidiaries **

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Contributions to Kuwait Foundation for Advancement of Science (KFAS)	(192)	(133)
Provision for National Labour Support Tax (NLST)	(447)	(334)
Provision for Zakat	(197)	(122)
	(836)	(589)
(c) Parent company		
Under provision of NLST and Zakat for the previous years	-	(687)
	-	(687)
	(1,143)	(1,704)

*The above tax is calculated based on the tax law adopted in United Kingdom.

**The contributions and provisions are on profit of local subsidiaries, whereas no contribution and provision for the parent company was recognised in the current year (2011: Nil) as the net taxable results attributable to the parent company was a loss.

13 Profit/(loss) for the year

Profit/(loss) for the year is stated after charging/(crediting):

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Staff costs	29,020	27,018
Depreciation	6,290	5,983
(Loss)/profit on disposal of property, plant and equipment	(7)	601

The number of staff employed by the parent company at 31 December 2012 was 66 (2011: 63)

Notes to the consolidated financial statements (continued)

14 Basic and diluted earnings/(loss) per share attributable to the owners of the parent

Earning/(loss) per share is calculated by dividing the profit/(loss) for the year attributable to the owners of the parent by the weighted average number of shares outstanding during the year as follows:

	Year ended 31 Dec. 2012	Year ended 31 Dec. 2011 (Restated)
Profit/(loss) for the year attributable to the owners of the parent (KD '000)		
- from continuing operations	10,223	(28,051)
- from discontinued operations	2,758	(432)
Total	12,981	(28,483)
Weighted average number of shares outstanding during the year (excluding treasury shares) – shares	1,261,959,044	1,262,104,524
Basic and diluted earnings /(loss) per share		
- from continuing operations	8 Fils	(23) Fils
- from discontinued operations	2 Fils	-
Total	10 Fils	(23) Fils

15 Goodwill

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000 (Restated)
Balance at 1 January	6,760	6,718
Additions and other adjustments	-	115
Foreign exchange adjustment	323	(73)
	7,083	6,760

Notes to the consolidated financial statements (continued)

16 Property, plant and equipment

Year ended 31 December 2012

	Freehold property KD '000	Leasehold property KD '000	Property on leasehold land KD '000	Plant and machinery KD '000	Motor vehicles KD '000	Furniture and equipment KD '000	Leased plant, machinery & vehicles KD '000	Property under construction KD '000	Total KD '000
Cost or valuation									
At 1 January 2012	**14,046**	**1,220**	**29,599**	**71,814**	**10,887**	**12,906**	**2,013**	**17,042**	**159,527**
Foreign exchange adjustments	26	(31)	-	575	1	-	27	-	**598**
Additions/transfer	1,479	13	2,236	11,469	606	732	-	(9,106)	**7,429**
Write off	-	-	(1,386)	(354)	(822)	(215)	-	-	**(2,777)**
Disposals	-	(815)	-	(7,474)	(44)	-	(44)	-	**(8,377)**
Reclassification	267	(267)	-	-	-	-	-	-	-
Transferred to inventories	-	-	-	-	-	-	-	(2,117)	**(2,117)**
At 31 December 2012	**15,818**	**120**	**30,449**	**76,030**	**10,628**	**13,423**	**1,996**	**5,819**	**154,283**
Accumulated depreciation and impairment losses									
At 1 January 2012	**1,115**	**861**	**23,721**	**49,424**	**8,791**	**8,996**	**1,303**	-	**94,211**
Foreign exchange adjustments	46	9	-	(79)	1	-	35	-	**12**
Charge for the year	567	69	342	3,801	869	500	142	-	**6,290**
Write off	-	-	(1,386)	(354)	(822)	(215)	-	-	**(2,777)**
Relating to disposals	-	(515)	-	(6,878)	(35)	-	(19)	-	**(7,447)**
Reclassification	384	(384)	-	-	-	-	-	-	-
At 31 December 2012	**2,112**	**40**	**22,677**	**45,914**	**8,804**	**9,281**	**1,461**	-	**90,289**
Net book value									
At 31 December 2012	**13,706**	**80**	**7,772**	**30,116**	**1,824**	**4,142**	**535**	**5,819**	**63,994**

Properties on lease hold land are on lands which have been leased from the government of Kuwait through renewable lease contracts.

Property under construction mainly represents the cost incurred, on the expansion of the one of the subsidiaries existing factories and the construction of a 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)

16 Property, plant and equipment (continued)

Year ended 31 December 2011

	Freehold property KD '000	Leasehold property KD '000	Property on leasehold land KD '000	Plant and machinery KD '000	Motor vehicles KD '000	Furniture and equipment KD '000	Leased plant, machinery & vehicles KD '000	Property under construction KD '000	Total KD '000
Cost or valuation									
At 1 January 2011	14,365	1,203	29,605	71,087	10,161	12,685	1,988	16,095	157,189
Foreign exchange adjustments	(6)	(7)	(6)	(292)	-	-	(21)	-	(332)
Additions	581	24	-	2,194	1,130	221	46	947	5,143
Write off	-	-	-	(7)	(386)	-	-	-	(393)
Disposals	(894)	-	-	(1,168)	(18)	-	-	-	(2,080)
At 31 December 2011	**14,046**	**1,220**	**29,599**	**71,814**	**10,887**	**12,906**	**2,013**	**17,042**	**159,527**
Accumulated depreciation and impairment losses									
At 1 January 2011	665	807	23,417	47,150	8,356	8,417	1,176	-	89,988
Foreign exchange adjustments	32	(30)	-	(107)	4	-	(15)	-	(116)
Charge for the year	526	84	304	3,518	830	579	142	-	5,983
Write off	-	-	-	(7)	(386)	-	-	-	(393)
Relating to disposals	(108)	-	-	(1,130)	(13)	-	-	-	(1,251)
At 31 December 2011	**1,115**	**861**	**23,721**	**49,424**	**8,791**	**8,996**	**1,303**	**-**	**94,211**
Net book value									
At 31 December 2011	**12,931**	**359**	**5,878**	**22,390**	**2,096**	**3,910**	**710**	**17,042**	**65,316**

Notes to the consolidated financial statements (continued)

17 Investment in associates

The significant associates of the group as at 31 December 2012 and 2011 are as follows:

	Percentage ownership	
	31 Dec. 2012	31 Dec. 2011
Meezan Bank Ltd – (Quoted)	49	49
Kuwait Rocks Company – SAK (Closed)	38	38
Privatization Holding Company – KSC (Closed) - (Quoted)	34	34
Kuwait Cement Company – SAK (Closed) - (Quoted)	25	25
Al Raya Global Real Estate – KSC (Closed)	23	23
Mabanee Company - SAK (Closed) - (Quoted)	19	20
Marsa Alam Holding Company – KSC (Closed)	20	20
Eastern United Petroleum Services Company – KSC (Closed)	20	20
Contracting and Marine Services Co. – SAK (Closed) (Quoted)	18	18
Kuwait Real Estate Holding - KSC (Closed) - (Quoted)	24	-

	31 Dec. 2012	31 Dec. 2011
	KD '000	KD '000
Movement during the year is as follows:		
Balance at 1 January	283,126	272,494
Additions during the year	6,690	14,114
Capital reduction and redemption of units by associates	(4,078)	-
Share of results	16,647	14,464
Change in other comprehensive income	1,845	(14,258)
Dividend received	(7,779)	(2,845)
Transferred to investment in subsidiary	-	(523)
Dilution loss of an associate (refer b)	(253)	-
Disposal of associates	(7,003)	-
Impairment in value	(584)	-
Reclassification of remaining investment to available for sale investments on disposal	(1,297)	-
Other adjustments	183	(320)
Balance at the end of the year	287,497	283,126

a) All of the above associates are incorporated in Kuwait with the exception of Meezan Bank Ltd, which is registered in Pakistan.

b) During the year, one of the group's associate, Mabanee Company SAK (Closed) acquired control of one of its associate by issuing its ordinary shares as a purchase consideration. Consequently this has resulted in the group's shareholding in Mabanee, diluting to 19% from 20%, resulting in a dilution loss of KD253 thousand. Although, the group owns 19% of Mabanee Company SAK (Closed), the group exercises significant influence over the associate by way of board representation.

c) A major portion of an associate with a carrying value of KD83,941 thousand have been subject to an exchangeable option (note 28 d).

d) During the 4th quarter of the year, the group acquired additional 13% of the issued share capital of Kuwait Real Estate Holding Co. KSC (Closed) for a consideration of KD2,801 thousand, which increased the existing stake of 11% in the investee to 24%. Consequent to the acquisition, the investment was classified as an associate and the group has reclassified its existing investment with a carrying value of KD979 thousand from "available for sale investments" to "investment in associates". A goodwill amounting to KD587 thousand has arisen as a result of the above acquisition and this has been included in the carrying value of the investment which totalled to KD3,780 thousand as at 31 December 2012.

Notes to the consolidated financial statements (continued)

17 Investment in associates (continued)

e) Contracting and Marine Services Company – KSC (Closed) has been classified as investment in associate as the group exercise significant influence over the operating and financial polices of this associate through, representation of three directors of the group on the board of directors of the investee company.

f) During the year 2012, two of the group's associates with carrying value of KD5,950 thousand were disposed for a consideration of KD5,372 thousand resulting in a loss of KD578 thousand. These associates have not been listed out in the table above as they were individually not significant. Further, the Group also partially disposed an insignificant stake in one of its quoted associate's which resulted in a gain of KD424 thousand.

Aggregate share of associates' assets and liabilities:

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Assets	777,205	692,033
Liabilities	537,203	453,931

Aggregated share of associates' revenue and profit:

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Revenue	64,567	47,980
Profit (recognised in the consolidated statement of income)	16,647	14,464

g) Investment in quoted associates with a carrying value of KD244,194 thousand (2011: KD228,665 thousand) have a market value of KD282,057 thousand (2011: KD215,144 thousand).

h) The group's share of associates' contingent liabilities amounted to KD63,140 thousand (2011: KD39,116 thousand). This includes the group's share of contingent liabilities related to a foreign bank (Meezan Bank Ltd.) which amounted to KD30,177 thousand (2011: KD29,600 thousand).

18 Investment properties

The movement in investment properties is as follows:

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Fair value as at 1 January	13,912	36,642
Additions	10,462	3,698
Disposal	(1,140)	(26,888)
Change in fair value	2,025	460
	25,259	13,912

Notes to the consolidated financial statements (continued)

18 Investment properties (continued)

Investment properties comprise of land and buildings in the following countries:

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Kuwait	**24,944**	13,573
Jordan	**315**	339
Total	**25,259**	13,912

a) Investment properties are stated at fair value, which has been determined based on valuations performed by independent valuers.

b) Investments properties amounting to KD13,700 thousand (2011: KD Nil) are secured against bank loans (refer note 28).

c) During the year the Group disposed local investment properties with a carrying value of KD1,140 thousand for a consideration of KD1,200 thousand which resulted in a gain of KD60 thousand.

d) During the previous year, the Group disposed its investment properties located in Saudi Arabia for a consideration of KD26,535 thousand resulting in a loss of KD353 thousand. Total cash received on this sale amounted to KD9,914 thousand and the balance of KD16,621 thousand is shown as receivable which was due in November 2012 and November 2013.

The Group has been in negotiations with the buyer to settle the amount which was due in November 2012. Consequently subsequent to the reporting date the Group has agreed with the buyer to settle the amount due by transferring a real estate property (based in the Kingdom of Saudi Arabia) which has been valued at KD4,661 thousand and the remaining by way of cash. In January 2013, the group received an amount of KD1,801 thousand from the buyer and the remaining cash balance of KD1,801 thousand is expected to be settled in first quarter of 2013. The legal formalities with regard to the transfer of the real estate property to the Group are in progress. No adjustments have been made to the above subsequent event in the consolidated financial statements for the year ended 31 December 2012.

19 Available for sale investments

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Non Current		
Managed funds	**189,703**	191,043
Unquoted equity participations	**203,161**	188,917
Quoted shares	**305,231**	359,365
	698,095	739,325
Current		
Quoted shares (a)	**79,847**	86,713
	777,942	826,038

a) The quoted shares classified as current at 31 December represents the remaining investments from those which were transferred from investments at fair value through profit or loss as of 1 July 2008 (refer note 23 a).

Notes to the consolidated financial statements (continued)

19 Available for sale investments (continued)

b) Managed funds include investments in private equity funds with a carrying value of KD75,410 thousand (2011: KD75,914 thousand). Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

c) At the end of the year, the group recognised an impairment loss of KD6,622 thousand (2011 : KD21,640 thousand) for certain local and foreign quoted shares, as the market value of these shares at reporting dates declined significantly below their costs. Further the group also recognised an impairment loss of KD5,877 thousand (2011: KD18,421 thousand) against certain unquoted shares, local and foreign funds based on estimates made by management as per information available to them and the net assets values reported by the investment managers.

d) Unquoted investments and managed funds of KD79,283 thousand (2011: KD88,835 thousand) are carried at cost less impairment in value if any, since their fair value cannot be reliably determined. The group's management is not aware of any circumstance that would indicate impairment/further impairment in value of these investments.

e) Quoted shares with a fair value of KD61,476 thousand (2011: KD37,006 thousand) are secured against short term borrowings (refer note 31) and long term borrowings (refer note 28).

f) During the year, the group reclassified an investment with a carrying value of KD979 thousand to investment in associates (refer note 17d).

20 Inventories

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Finished goods and work-in-progress	**12,102**	6,960
Raw materials and consumables	**11,752**	15,553
Spare parts and others	**2,630**	2,455
Goods in transit	**565**	704
	27,049	25,672
Provision for obsolete and slow moving inventories	**(1,405)**	(2,070)
	25,644	23,602

During the year, on the commencement of commercial production of a local subsidiary, the group transferred items of inventory amounting to KD2,117 thousand from assets under construction to inventories and spare parts (note 16).

Notes to the consolidated financial statements (continued)

21 Accounts receivable and other assets

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Financial assets		
Trade receivables	**19,371**	20,662
Amount due on disposal of foreign investments properties (refer note 21b and 18d)	**16,409**	15,754
Amount due on disposal of local investment properties	**1,150**	-
Amounts due on sale of investments	**101**	2,309
Due from associates	**4,708**	4,421
Due from other related parties	**1,144**	980
Due from key management personnel	**233**	233
Advance payments to acquire investments	**1,555**	5,873
Due from Kuwait Clearing Company (future trade)	**3,228**	4,556
Due from investment brokerage companies	**2,091**	7,770
Interest and other accrued income	**1,430**	2,669
Other financial assets	**5,914**	7,700
	57,334	72,927
Less: amount due after one year (see note 7a)	**(1,969)**	(7,848)
	55,365	65,079
Non-financial assets		
Other assets	**6,811**	3,145
	6,811	3,145
	62,176	68,224

a) Trade receivables are non-interest bearing and generally on 30 to 90 days terms.

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

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Neither past due nor impaired	**13,291**	13,766
Past due but not impaired		
- less than 3 months	**1,893**	5,886
- 3 – 6 months	**4,187**	1,010
Total trade receivables	**19,371**	20,662

Trade receivables that are less than six months past due, are not considered impaired since they relate customers for whom there is no recent history of default.

b) Due on disposal of foreign investment properties have been discounted based on an effective interest rate of 5.5% to give effect to the differed payment term. A charge of KD Nil (2011 : KD867 thousand) has been recognised in the consolidated statement of income. The effect of unwinding of discount for the year ended 31 December 2012 on this receivable amounted to KD407 thousand (2011: KD Nil thousand) recognised in "Other income" (note 18d).

c) During the year, the Group recognised an impairment loss of KD1,381 thousand (2011: KD Nil) against certain accrued management fees, due from related parties and other receivables.

Notes to the consolidated financial statements (continued)

22 Murabaha and wakala investments

	Effective profit rate % (per annum) 2012	2011	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Due from a local Islamic investment company/ due from related parties	-	-	**14,968**	14,968
Provision for impairment in value			**(14,968)**	(14,968)
			-	-
Placed with local Islamic banks	**0.375%-1.125%**	0.625%-2.315%	**11,293**	8,413
			11,293	8,413

No profit was recognised on impaired wakala investments during the current year (2011: Nil). Wakala investment of KD14,968 thousand (2011: KD14,968 thousand) placed with a local Islamic investment company matured in 2008. The investee company defaulted on settlement of these balances on the maturity date. Full provision has been made for these receivables in accordance with the Central Bank of Kuwait credit provisioning rules.

During previous years, one of the local subsidiary's of the group violated Articles 148 and 151 of the Commercial Companies Law of 1960 when it assumed the financial and legal obligations on wakala investments of KD9,968 thousand that the subsidiary had placed with an investment company in a fiduciary capacity under a wakala agreement with certain related parties, despite having no such obligation under the wakala agreement. The group has initiated legal proceedings against the parties to recover KD9,968 thousand including profits thereon.

23 Investments at fair value through profit or loss

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Held for trading :		
Quoted shares and debt instruments	**32,381**	34,411
Designated on initial recognition :		
Local funds	**14,426**	21,905
International managed portfolios and funds	**15,185**	25,500
	29,611	47,405
	61,992	81,816

a) In 2008, as a result of significant developments in the global financial markets, the group had reclassified investments with a fair value of KD380,755 thousand as at 1 July 2008 from "fair value through profit or loss" category to "available for sale" category. The fair value of remaining reclassified investments as of 31 December 2012 is KD79,847 thousand (2011: KD86,713 thousand).

b). During 2008, a local money market funds, in which the group has investments totaling to KD1,753 thousand as at 31 December 2012 (2011: KD1,810 thousand), suspended redemption requests. Management has been informed by the managers of the funds that redemptions will be made depending on availability of liquid funds. The group's management considers this to be a situation arising from the current crisis in the global financial market and its impact on the local market. The investment has been fair valued based on the unaudited net asset value reported by the fund manager as of 31 December 2012. The group's management expects to realise these investments at not less than its carrying value.

Notes to the consolidated financial statements (continued)

23 Investments at fair value through profit or loss (continued)

c). Quoted shares, held by local subsidiaries, with a fair value of KD15,433 thousand (2011: KD14,174 thousand) are secured against short term borrowings (refer note 31) and long term borrowings (refer note 28).

24 Share capital and share premium

a) As of 31 December 2012 and 2011, authorized issued and fully paid up share capital in cash of the parent company is comprised of 1,295,098,167 shares of 100 Fils each.

b) The shareholders of the parent company approved at the shareholders Annual General Assembly held on 24 May 2012, to offset the accumulated losses, amounting to KD30,524 thousand against general reserve (KD856 thousand), statuary reserve (KD911 thousand) and then share premium (KD28,757 thousand).

c) Share premium is not available for distribution.

25 Treasury shares

	31 Dec. 2012	31 Dec. 2011
Number of shares	33,139,123	33,139,123
Percentage of issued shares	2.56%	2.56%
Market value (KD '000)	7,025	8,450
Cost (KD'000)	30,375	30,375

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

As at 31 December 2012 and 2011, one of the associate companies of the group held 115,582,837 shares of the parent company's shares equivalent to 8.9% of the parent company's shares issued.

26 Cumulative changes in fair value, other components of equity and Non-controlling interests

a) Cumulative change in fair value

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Balance at 1 January	139,662	195,732
Other comprehensive income:		
Net change in fair value of available for sale investments	(1,308)	(64,665)
Transferred to consolidated statement of income on disposal of available for sale of investments	(11,276)	(11,629)
Transferred to consolidated statement of income on impairment in value of available for sale investments	9,476	32,879
Share of fair value adjustment in associates	3,645	(12,655)
Other comprehensive income for the year	537	(56,070)
Balance at 31 December	140,199	139,662

Notes to the consolidated financial statements (continued)

26 Cumulative changes in fair value, other components of equity and Non-controlling interests (continued)

b) Other components of equity

	Statutory reserve KD '000	General reserve KD '000	Gain on Sale of treasury shares reserve KD '000	Foreign currency translation reserve KD '000	Total KD '000
Balance as at 31 December 2010	41,704	289	19,072	(1,984)	59,081
Loss on disposal of treasury shares	-	-	(620)	-	(620)
Offset of accumulated losses	(41,704)	(289)	-	-	(41,993)
Reserve transfers of subsidiaries	911	856	-	-	1,767
Other comprehensive income:					
Currency translation differences	-	-	-	(1,112)	(1,112)
Balances at 31 December 2011	**911**	**856**	**18,452**	**(3,096)**	**17,123**
Offset of accumulated losses (refer note 24b)	(911)	(856)	-	-	(1,767)
Reserve transfers of subsidiaries	1,232	507	-	-	1,739
Other comprehensive income:					
Currency translation differences	-	-	-	(174)	(174)
Balances at 31 December 2012	**1,232**	**507**	**18,452**	**(3,270)**	**16,921**

Statutory reserve

In accordance with the Companies Law and the parent company's articles of association, 10% of the profit for the year before KFAS, NLST, Zakat and directors remuneration but after Non-controlling interest is to be transferred to statutory 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 statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid-up share capital to be made in years when retained earnings are not sufficient for the distribution of a dividend of that amount. No transfer is required in a year in which the group has incurred a loss or where accumulated losses exist.

c) Non-controlling interests

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Balance at 1 January	**144,686**	174,216
Payments to non-controlling interests of subsidiary due to capital reduction *	-	(18,190)
Dividend paid to non-controlling interests by the subsidiaries	**(3,419)**	(1,403)
Other net changes in non-controlling interests	**(676)**	(23)
Transactions with non-controlling interests	**(4,095)**	(19,616)
Profit/(loss) for the year	**4,776**	(5,275)
Other comprehensive income :		
Exchange differences arising on translation of foreign operations	**(1,076)**	(791)
Net change in fair value of available for sale investments	**(4,363)**	(8,870)
Transferred to consolidated statement of income on disposal of available for sale investments	**(1,608)**	(2,227)
Transferred to consolidated statement of income on impairment in value of available for sale investments	**3,023**	7,182
Share of other comprehensive income of associates	**447**	67
Total other comprehensive income for the year	**(3,577)**	(4,639)
Total comprehensive income for the year	**1,199**	(9,914)
Balance at 31 December	**141,790**	144,686

Notes to the consolidated financial statements (continued)

26 Cumulative changes in fair value, other components of equity and Non-controlling interests (continued)

* During previous year, the shareholders of one of the local subsidiary's of the Group, decreased its share capital and hence an amount of KD18,190 thousand due to its non-controlling interests was transferred from non-controlling interests to "accounts payable and other liabilities", net of cash distribution of KD16,875 thousand (2011: KD10,608 thousand).

27 Trust certificates issued

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Trust certificates		
- Murdaraba sukuk - Due within one year	-	132,549

During 2007 the parent company entered into an Islamic financing arrangement whereby the parent company issued through a special purpose vehicle Trust certificates (Mudaraba Sukuk) of US Dollars 475,000 thousand at an issue price of 100% of their principal amount which were due at the end of 5 years from the date of issue (i.e. due in August 2012). The certificate holders were entitled to a quarterly profit distribution at the rate of 3 months LIBOR plus 1.05% per annum.

The parent company settled the outstanding Sukuk of US Dollars 475,000 thousand on the due date at 16 August 2012, this settlement was financed through new syndicated financing arrangements (note 28d).

28 Long-term borrowings

Currency	Effective Interest rate	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Conventional loans			
Kuwaiti Dinars (note 28d)	3.5% - 5%	361,483	337,465
US Dollars	1.75% - 3.25%	71,654	110,115
Euro	2% - 4.8%	4,995	2,207
		438,132	449,787
Less : Due within one year		(77,937)	(54,794)
		360,195	394,993
Islamic financing arrangements			
Murabaha payables (note 28d)	5%	101,950	-
Other Islamic financing arrangements	5.5%	66,190	-
		168,140	-
Less: Due within one year		(4,400)	-
		163,740	-
Total		523,935	394,993

Notes to the consolidated financial statements (continued)

28 Long-term borrowings (continued)

a. During the year, the parent company has rescheduled Kuwaiti Dinar denominated loans amounting to KD54,000 thousand (2011: KD153,000 thousand)and US Dollar denominated loans equivalent to KD Nil (2011: KD43,851 thousand) from short term loans to long term loans.

b. During 2011 and 2012, a local subsidiary of the Group restructured its financing arrangements with local banks and accordingly Kuwaiti Dinar loans amounting to KD147,360 thousand (net of repayment of KD11,190 thousand) were converted into secured long term facilities. As per loan restructuring agreements, these loans are required to be fully secured. As of 31 December 2012, these are partly secured (notes 18, 19 and 23) and the process of identification and securitization of the required balance investment portfolios is currently underway.

Further, US Dollar loan equivalent of KD3,541 thousand and Kuwait Dinar loans of KD8,000 thousand (2011: KD8,000 thousand) are secured by certain available for sale investments (refer note 19).

c. The Euro loans are secured against property, plant and equipment with a book value of KD1,509 thousand (2011: KD1,663 thousand).

d. As referred to in note 27, long term borrowings include KD101,950 thousand of Islamic and KD25,000 thousand of conventional borrowings due in 2015 for which the group provided an exchange option to the respective lenders on the shares of one of its associates having a carrying value of KD83,941 thousand. Under the terms of the agreements, these shares are kept in a custody portfolio account with a specialised institution.

29 Provisions

	31 Dec. 2012 KD '000	31 Dec. 2011 KD'000 (Restated)	31 Dec. 2010 KD '000 (Restated)
Pension liability (refer note 34)	6,699	5,535	6,032
Provision for staff indemnity	7,512	8,122	6,257
Provision for land-fill expenses	710	681	655
Provision for rental property	553	2,696	5,452
	15,474	17,034	18,396
Less: Provision for rental property – amount due in less than one year	(335)	(1,888)	(1,000)
	15,139	15,146	17,396

The provision for rental property relates to onerous property rental costs (net of estimated rent receivable) and dilapidations obligations of foreign subsidiaries which are payable over various periods up to 2017. During the year, the group reversed an amount of KD1,939 thousand (2011: KD2,068 thousand) for onerous property rental costs and dilapidation obligations and has utilised an amount of KD288 thousand (2011: KD716 thousand), from the provision.

Notes to the consolidated financial statements (continued)

30 Accounts payable and other liabilities

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Financial liabilities		
Trade payables	15,846	15,419
Accrued interest	1,220	2,570
Dividend payable	1,282	1,518
Leasing creditors - amount due in less than one year	154	137
Provision for rental property – amount due in less than one year	335	1,888
National labour support tax	4,608	4,496
Kuwait Foundation for the Advancement of Sciences and Zakat	838	804
Other accruals	5,085	3,440
Due to associates (refer note 38) *	9,667	4,336
Due to other related parties (refer note 38)	448	151
Unrealised loss on interest rate swaps	-	123
Amounts payable to non controlling interest due to capital reduction of one of the local subsidiary (refer note 26c)	1,315	7,582
Other liabilities	8,398	11,572
	49,196	54,036
Non-financial liabilities		
Other creditors	1,050	872
Accruals	440	1,168
	1,490	2,040
	50,686	56,076

* Due to associates includes a short term advance of KD4,800 thousand (2011: KD Nil) obtained from an associate company at an interest rate of 5% per annum.

31 Short-term borrowings

Currency	Effective Interest rate	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Conventional loans			
Kuwaiti Dinars (a)	4.5% - 6%	62,949	120,914
US Dollars	1% - 5%	71,444	76,192
Sterling	2% - 3.5%	9,968	12,601
Jordan Dinars (c)	3.9% - 5.9%	96	2,335
		144,457	212,042
Long term borrowings due within one year		77,937	54,794
		222,394	266,836
Islamic financing arrangements			
Murabaha/wakala/Ijara payables	3% - 6.5%	29,529	94,075
Long term other Islamic financing arrangements due within one year		4,400	-
		33,929	94,075
Total		256,323	360,911

Notes to the consolidated financial statements (continued)

31 Short-term borrowings (continued)

a. Kuwaiti Dinar loans amounting to KD5,000 thousand (2011: KD7,041 thousand) of the group, is secured by certain investments at fair value through profit or loss (refer note 23), and available for sale investments (refer note 19).

b. During the year, one of the local subsidiaries of the group has principally agreed with the local bank to restructure its US Dollar loan equivalent to KD32,392 thousand into a Kuwaiti Dinar secured long term loan amounting to KD14,000 thousand and US dollar secured long term loan amounting to USD65,000 thousand. However, the process of identification and securitization of the required investment portfolio is currently underway.

c. Islamic financing arrangements include Ijara payables of KD2,873 thousand (2011: Nil) which is secured against investment properties of local subsidiaries (refer note 18).

32 Cash and cash equivalents

	Effective interest/profit rate %	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Murabaha and wakala investments – maturing within three months		-	1,000
Short term deposits	1.5%	**6,129**	79,041
Bank balance and cash	1.5%	**57,072**	35,724
Due to banks	5%-6%	**(17,897)**	(23,656)
		45,304	92,109
Less: Blocked balances		**(7,696)**	(115)
Cash and cash equivalents for the purpose of consolidated cash flow statement		**37,608**	91,994

Blocked balances include an amount of KD2,281 thousand (2011: KD1,976 thousand) which is secured against borrowings.

During the year, Kuwait Dinar denominated short term deposit of KD43,000 thousand and US Dollar denominated short term deposits equivalent KD19,490 thousand were utilized to settle borrowings.

33 Dividend distribution

The board of directors of the parent company do not propose any dividend for the year ended 31 December 2012 (2011: Nil). This proposal is subject to the approval of General Assembly of shareholders.

34 Defined benefit pensions schemes

The Group has defined benefit pension schemes for the employees of certain subsidiaries in the United Kingdom. The Schemes provide benefits based on final salary and length of service on retirement. The Schemes are subject to the Statutory Funding Objective under the United Kingdom Pensions Act 2004. A valuation of the schemes is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process the Group must agree with the Trustees of the Schemes the contributions to be paid to address any shortfall against the Statutory Funding Objective.

Notes to the consolidated financial statements (continued)

34 Defined benefit pensions schemes (continued)

The Schemes are managed by a professional trustee appointed by the Group. The Trustee has responsibility for obtaining valuation of the fund, administering benefit payments and investing the Schemes' assets. The Trustee delegates some of these functions to their professional advisers where appropriate.

The Schemes expose the Group to a number of risks:

- Investment risk: The Scheme holds investments in asset classes, such as equities, which have volatile market values and while these assets are expected to provide the real returns over the long-term the short term volatility can cause additional funding to be required if deficit emerges.
- Interest rate risk: The Schemes' liabilities are assessed using market yields on high quality corporate bonds to discount the liabilities. As the Schemes hold assets such as equities the value of the assets and liabilities may not move in the same way.
- Inflation risk: A significant proportion of the benefits under the Schemes are linked to inflation. Although the Schemes' assets are expected to provide a good hedge against inflation over the long term, movements over the short-term could lead to deficits emerging.
- Mortality risk: In the event that members live longer than assumed a deficit will emerge in the Schemes.
- For certain sections of the Schemes, members are assumed to commute 20% of their pension for cash at retirement. If on average less pension is taken this would lead to a deficit emerging.
- The Trustee holds insurance policies for some members of the Schemes. There is a very small risk that the insurers may default on their policies which would cause additional funding to be required.

Effect of the Schemes on the Group's future cash flows

The Group is required to agree Schedules of Contributions with the Trustee of the Schemes following the valuation which must be carried out at least once every three years. In the event the valuation reveals a larger deficit than expected the Group may be required to increase contributions above those set out in the existing Schedules of Contributions. Conversely if the position is better than expected contributions may be reduced.

The group expects to contribute KD720 thousand to its defined benefit plans in 2013.

The following disclosures cover all the schemes on an aggregated basis. The schemes are closed to new members and are not accruing further benefits. Actuarial calculations have been made in order to determine pension liabilities and pension expenses in connection with the group's defined benefit pension schemes. The following assumptions have been used in calculating the liabilities and expenses incurred:

	31 Dec. 2012	31 Dec. 2011 (Restated)	31 Dec. 2010 (Restated)
Discount rate at 31 December	**4.2%**	5.1%	5.8%
Inflation assumption (RPI)	**2.55%**	2.8%	3.2%
Revaluation in deferment (CPI)	**2.25%**	2.3%	3.2%
Expected return on plan assets	**4.2%**	5.1%	5.26%
Future salary increases	**N/A**	N/A	N/A
Future pension increases	**2.55%**	2.8%	3.2%
Mortality after retirement	SAPS (S1NA) tables with medium cohort year of birth projections and minimum of 1.25% (2011 and 2010: 1%) per annum improvement.		

Notes to the consolidated financial statements (continued)

34 Defined benefit pensions schemes (continued)

Under the mortality tables adopted, the expected age at death for a member at age 65 is as follows:

	31 Dec. 2012	31 Dec. 2011 (Restated)	31 Dec. 2010 (Restated)
Male currently aged 45	**89.1**	88.3	88.2
Female currently aged 45	**91.7**	91.0	91.0
Male currently aged 65	**87.3**	86.4	86.3
Female currently aged 65	**89.7**	89.2	89.1

During the year the Group has implemented the new provisions of IAS 19 Retirement Benefits and as this is a change of accounting policy the prior year's figures have been restated. The impact of the change in accounting policy is set out in note 35 below.

Consolidated statement of income

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 (Restated) KD '000	Year ended 31 Dec. 2010 (Restated) KD '000
Interest cost	**(1,413)**	(1,530)	(1,451)
Expected return on assets	**1,157**	1,204	1,148
Settlement on the disposal of subsidiary	**1,307**	-	-
Accrued expenses	**(132)**	-	-
Net annual charge included in general and administrative expenses	**919**	(326)	(303)

A reconciliation of the movement in the liability for defined benefit pension scheme is as follows:

Consolidated statement of financial position

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000 (Restated)	31 Dec. 2010 KD '000 (Restated)
Brought forward liability/(asset)	**5,535**	6,032	(480)
Consolidated statement of income (net)	**(919)**	326	303
Contributions	**(845)**	(599)	(439)
Actuarial gain/(losses)	**2,719**	(146)	6,639
Foreign Exchange adjustments	**209**	(78)	9
Carried forward liability	**6,699**	5,535	6,032

Notes to the consolidated financial statements (continued)

34 Defined benefit pensions schemes (continued)

Reconciliation of consolidated statement of financial position liability

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000 (Restated)	31 Dec. 2010 KD '000 (Restated)
Present value of obligations	28,731	28,040	26,668
Fair value of plan assets	(22,175)	(22,638)	(20,705)
Net plan deficit	6,556	5,402	5,963
Unrecognised actuarial losses	143	133	69
Net liability recognised in the consolidated statement of financial position	6,699	5,535	6,032

Changes in the present value of the defined benefit obligation

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000 (Restated)	31 Dec. 2010 KD '000 (Restated)
Opening defined benefit obligation	28,040	26,668	26,403
Interest cost	1,413	1,530	1,451
Actuarial losses	3,470	1,175	1,137
Liabilities extinguished on settlement	(3,922)	-	-
Accrued expenses	131	-	-
Benefits paid	(1,307)	(1,170)	(1,305)
Foreign exchange adjustment	906	(163)	(1,018)
Closing defined benefit obligation	28,731	28,040	26,668

Changes in the fair value of the plan assets

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000 (Restated)	Year ended 31 Dec. 2010 KD '000 (Restated)
Opening fair value of plan assets	22,638	20,705	21,108
Expected return	1,157	1,204	1,148
Actuarial gain	756	1,338	486
Contributions by employer	845	599	439
Assets disposed on settlement	(2,616)	-	-
Benefits paid	(1,307)	(1,170)	(1,305)
Foreign exchange adjustment	702	(38)	(1,171)
Closing fair value of plan assets	22,175	22,638	20,705

Notes to the consolidated financial statements (continued)

34 Defined benefit pensions schemes (continued)

The fair value of the plan assets, by category is as follows:

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000 (Restated)	31 Dec. 2010 KD '000 (Restated)
Plan assets:			
Equities	**10,043**	9,282	8,282
Bonds	**11,611**	12,904	11,651
Other assets	**521**	452	772
	22,175	22,638	20,705

The actual return on the Schemes' assets net of expenses over the period was 8.1%.

Sensitivity of the value placed on liabilities

The defined benefit obligation would be affected by changes in the actuarial assumptions. The table below shows the potential impact of relatively small changes in the key assumptions:

Adjustment to assumptions	**Approximate effect on liabilities KD '000**
Discount rate	
Plus 0.5%	(2,469)
Minus 0.5%	2,771
Inflation	
Plus 0.25%	1,137
Minus 0.25%	(1,088)
Life expectancy	
Plus 1 year	970
Minus 1 year	(943)

Note the above sensitivities are approximate and only show the likely effect of an assumption being adjusted whilst all other assumptions remain the same.

35 Prior year adjustment for the change in accounting policy

During the year the Group has implemented the new provisions of IAS 19 Retirement Benefits. The key changes are to:

- eliminate the 'corridor method', requiring entities to recognise all gains and losses arising in the reporting period and the deficit being reported in full
- streamline the presentation of changes in plan assets and liabilities by changing to a "net interest cost"
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The new accounting policy has been adopted retrospectively and the comparative amounts have been restated.

The positive effect on earnings per share related to the restatement in 2012 was less than 2 Fils per share (2011: less than 1 Fils per share).

Notes to the consolidated financial statements (continued)

35 Prior year adjustment for the change in accounting policy (continued)

The balances which have been restated in the consolidated financial statements in respect of IAS19 only for the years ended 31 December 2011 and 2010 are as follows:

	31 Dec. 2011 KD'000 (Previously reported)	31 Dec. 2011 KD'000 (Restated)	Net impact on profit/(loss) or other comprehensive income KD'000
Consolidated statement of income			
Finance costs	(40,866)	(41,194)	(328)
General, administrative and other expenses (pension contributions)	(22,335)	(21,733)	602
			274
Consolidated statement of comprehensive income			
Actuarial gains	-	146	146
Exchange differences	(425)	(233)	192
			338

	31 Dec. 2011 KD'000 (Previously reported)	31 Dec. 2011 KD'000 (Restated)	31 Dec. 2010 KD'000 (Previously reported)	31 Dec. 2010 KD'000 (Restated)
Consolidated statement of financial position				
Provisions - pension liability (note 29)	-	5,535	-	6,032
Goodwill	6,645	6,760	6,718	6,718
Accumulated losses	(30,524)	(36,136)	(42,965)	(48,997)
Other components of equity – foreign currency translation reserve (note 26b)	(3,288)	(3,096)	(1,984)	(1,984)

36 Discontinued operations

George Wilson Industries Limited

On 5 September 2012, GWI was sold for a consideration of KD1,969 thousand resulting in a profit before tax of KD2,350 thousand (refer note 7a). The operating profit of GWI up to the date of disposal and the profit or loss from remeasurement and disposal of assets and liabilities are summarised below:

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000 (Restated)
Sales	**1,235**	1,377
Cost of sales	**(1,245)**	(1,416)
Gross loss	**(10)**	(39)
Distribution costs	**(30)**	(67)
General, administrative and other expenses	**(152)**	(224)
	(192)	(330)
Finance costs	**(3)**	(22)
Loss from discontinued operations before and after tax	**(195)**	(352)
Gain on re-measurement and disposal		
Gain before and after tax on disposal (see note 7a)	**2,350**	-
Gain for the year from discontinued operations - GWI	**2,155**	(352)

Notes to the consolidated financial statements (continued)

36 Discontinued operations (continued)

BI Composites Limited

On 30 November 2012, Composites was put into administration and the Group gave up control of the subsidiary (refer note 7a). The operating profit of Composites up to the date of disposal and the profit or loss from re-measurement and disposal of assets and liabilities are summarised below:

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000 (Restated)
Sales	**3,646**	2,402
Cost of sales	**(3,435)**	(2,152)
Gross profit	**211**	250
Distribution costs	**(165)**	(135)
General, administrative and other expenses	**(153)**	(158)
	(107)	(43)
Finance costs	**(74)**	(37)
Loss from discontinued operations before and after tax	**(181)**	(80)
Gain on remeasurement and disposal		
Gain before and after tax on disposal (see note 7a)	**784**	-
Profit/(loss) for the year from discontinued operations - Composites	**603**	(80)
George Wilson Industries Limited	**2,155**	(352)
BI Composites Limited	**603**	(80)
Total profit/(loss) for the year from discontinued operations	**2,758**	(432)

37 Segmental analysis

The group activities are concentrated in three main segments: investment, building material and specialist engineering. The segments' results are reported to the higher management in the group. In addition, the segments results, assets and liabilities are reported based on the geographic locations which the group operates in.

Notes to the consolidated financial statements (continued)

37 Segmental analysis (Continued)

The following is the segments information, which conforms with the internal reporting presented to management:

	Investment		Building materials		Specialist engineering		Total	
	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000	**31 Dec. 2012 KD '000**	31 Dec. 2011 KD '000	**31 Dec. 2012 KD '000**	31 Dec. 2011 KD '000	**31 Dec. 2012 KD '000**	31 Dec. 2011 KD '000
Segment revenue	**71,641**	46,925	**42,185**	40,320	**65,201**	59,589	**179,027**	146,834
Less:								
Income from investments							**(45,980)**	(24,838)
Share of result of associates							**(16,647)**	(14,464)
Realised (gain)/loss on disposal of investment properties							**(60)**	353
Loss of disposal and dilution of associates							**407**	-
Change in fair value of investment properties							**(2,025)**	(460)
Interest and other income							**(7,336)**	(7,516)
Sales, per consolidated statement of income							**107,386**	99,909
Segment profit/(loss)	**45,704**	(6,382)	**8,442**	9,062	**4,132**	4,644	**58,278**	7,324
Less:								
Finance costs							**(38,904)**	(41,135)
Other unallocated (loss)/income							**(3,232)**	2,189
Profit/(loss) before taxation and other statutory contributions, per consolidated statement of income							**16,142**	(31,622)
Segment assets	**1,259,966**	1,371,885	**54,508**	52,589	**73,576**	75,346	**1,388,050**	1,499,820
Segment liabilities	**(26,733)**	(32,857)	**(14,508)**	(13,530)	**(24,736)**	(25,135)	**(65,977)**	(71,522)
Segment net assets	**1,233,233**	1,339,028	**40,000**	39,059	**48,840**	50,211	**1,322,073**	1,428,298
Trust certificates issued							**-**	(132,549)
Borrowings and due to banks							**(798,155)**	(779,560)
Total equity, per consolidated statement of financial position							**523,918**	516,189

Notes to the consolidated financial statements (continued)

37 Segmental analysis (Continued)

Property, plant and equipment of the group are primarily utilised by the building materials segment and the specialist engineering segment. The additions and depreciation relating to property, plant and equipment along with impairment in values by each segment, in which the assets are used, are as follows:

	Investment KD '000	Building materials KD '000	Specialist engineering KD '000	Total KD '000
At 31 December 2012				
Additions to property, plant and equipment	1,684	2,298	3,447	7,429
Depreciation	436	2,931	2,923	6,290
Impairment in value of available for sale investments	12,499	-	-	12,499
At 31 December 2011				
Additions to property, plant and equipment	247	3,715	1,181	5,143
Depreciation	513	2,558	2,912	5,983
Impairment in value of available for sale investments	40,061	-	-	40,061

Geographical segments

The geographical analysis is as follows;

	Assets		Sales	
	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Kuwait	715,536	825,767	42,185	40,319
Outside Kuwait	672,514	674,053	65,201	59,590
	1,388,050	1,499,820	107,386	99,909

38 Related party transactions

Related parties represent associates, directors and key management personnel of the group, and other related parties such as major shareholders and companies in which directors and key management personnel of the group 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 '000	31 Dec. 2011 KD '000
Transactions and balances included in the consolidated statement of financial position		
Due from related parties (refer note 21)	6,085	5,634
Due to related parties (refer note 30)	10,115	4,487
Long term borrowings - murabaha payable to an associate (refer note 28d)	15,098	-
Purchase of investment from an associate	-	3,493

Notes to the consolidated financial statements (continued)

38 Related party transactions (continued)

	Year ended 31 Dec. 2012 KD '000	Year ended 31 Dec. 2011 KD '000
Transaction included in the consolidated statement of income		
Management and placement fees earned from related parties	101	188
Impairment of value of receivable	981	-
Finance cost - charged by an associate	415	-
Purchase of raw materials – from associates	5,931	7,318
Compensation of key management personnel of the group		
Short term employee benefits	3,453	3,076
End of service benefits	160	926
	3,613	4,002

39 Summary of financial assets and liabilities by category

39.1 Categories of financial assets and liabilities

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 KD '000	31 Dec. 2011 KD '000
Financial assets:		
Loans and receivables:		
• Accounts receivable and other financial assets (refer note 21)	57,334	72,927
• Murabaha and wakala investments	11,293	8,413
• Short term deposits	6,129	79,041
• Bank balance and cash	57,072	35,724
At fair value through profit or loss:		
• Investments at fair value through profit or loss		
- Held for trading	32,381	34,411
- Designated on initial recognition	29,611	47,405
Available for sale investments (refer note 19)	777,942	826,038
	971,762	1,103,959
Financial liabilities:		
At amortised cost		
• Trust certificates issued	-	132,549
• Long term borrowings	523,935	394,993
• Leasing creditors	152	300
• Accounts payable and other financial liabilities (refer note 30)*	49,196	53,913
• Short term borrowings	256,323	360,911
• Due to banks	17,897	23,656
At fair value		
• Unrealised loss on interest rate swaps (refer note 30) *	-	123
	847,503	966,445

*Accounts payable and other financial liabilities are excluding unrealized loss on interest rate swaps.

Notes to the consolidated financial statements (continued)

39 Summary of financial assets and liabilities by category (continued)

39.1 Categories of financial assets and liabilities (continued)

Fair value represents amounts at which an asset could be exchanged or a liability settled on an arm's length basis. In the opinion of the group's management, except for certain available for sale investments which are carried at cost for reasons specified in Note 19 to the consolidated financial statements the carrying amounts of financial assets and liabilities as at 31 December 2012 and 2011 approximate their fair values.

39.2 Fair value hierarchy for financial instruments measured at fair value

The following table presents the financial assets and liabilities which are measured at fair value in the consolidated 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;

At 31 December 2012

	Note	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total Balance KD'000
Assets at fair value					
Available for sale investments					
-Managed funds					
Private equity funds	a	-	9,449	75,410	84,859
Other managed portfolio	a	-	-	83,690	83,690
-Unquoted equity participations	b	-	-	145,032	145,032
-Quoted shares	c	385,078	-	-	385,078
Investment at fair value through profit or loss					
-Quoted shares	c	29,566	-	-	29,566
- Quoted debt instruments	c	2,815	-	-	2,815
-Local funds	d	-	14,426	-	14,426
-International managed portfolios and funds	e	-	-	15,185	15,185
Total assets		417,459	23,875	319,317	760,651

Notes to the consolidated financial statements (continued)

39 Summary of financial assets and liabilities by category (continued)

39.2 Fair value hierarchy for financial instruments measured at fair value (continued)

At 31 December 2011

	Note	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total Balance KD'000
Assets at fair value					
Available for sale investments					
-Managed funds					
Private equity funds	a	-	-	75,914	75,914
Other managed portfolio	a	-	10,707	77,717	88,424
-Unquoted equity participations	b	-	-	126,787	126,787
-Quoted shares	c	446,078	-	-	446,078
Investment at fair value through profit or loss					
-Quoted shares	c	31,306	-	-	31,306
- Quoted debt instruments	c	3,105	-	-	3,105
-Local funds	d	-	21,905	-	21,905
-International managed portfolios and funds	e	-	-	25,500	25,500
Total assets		480,489	32,612	305,918	819,019
Liabilities at fair value					
Fair value of interest rate swaps	e	-	123	-	123
		-	123	-	123

Fair value measurements
The group measurement of financial assets and liabilities classified in level 3 uses valuation techniques inputs that are not based on observable market date. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	31 Dec. 2012 KD'000	31 Dec. 2011 KD'000
Opening balance	305,918	313,187
Net change in fair value recognised in other comprehensive income	17,309	(4,826)
Impairment recognised in profit or loss	(6,039)	(14,971)
Net change in fair value recognised in profit or loss	1,014	(2,695)
Net disposals during the year	(15,749)	(369)
Reclassified from carried at cost to fair valued investments	16,864	15,592
Closing balance	319,317	305,918

Changing inputs to the level 3 valuations to reasonably possible alternative assumption would not change significantly amounts recognised in profit or loss, total assets or total liabilities or total equity.

Measurement at fair value
The methods and valuation techniques used for the purpose of measuring fair value are as follows:

a) Managed funds
Private equity funds
The underlying investments in these private equity funds mainly represent foreign quoted and unquoted securities. Information for these investments is limited to periodic financial reports provided by the investment managers. These investments are carried at net asset values reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

Notes to the consolidated financial statements (continued)

39 Summary of financial assets and liabilities by category (continued)

Measurement at fair value (continued)

Other managed portfolios
The underlying investments of other managed portfolios represent foreign quoted and unquoted securities managed by specialized portfolio managers. They are valued based on periodic reports received from the portfolio managers.

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

c) Quoted shares & debt instruments
Quoted shares and debt instruments represent all listed equity securities and debt instruments which are publicly traded in stock exchanges. Fair values have been determined by reference to their quoted bid prices at the reporting date.

d) Local funds
The underlying investments of these funds mainly comprise of local quoted shares and money market instruments and the fair value of the investment has been determined based on net asset values reported by the fund manager as of the reporting date.

e) International managed portfolios and funds
The underlying investments of international managed portfolios and funds represent quoted and unquoted securities. They are valued based on fund managers' report.

f) Interest rate swaps
The fair value of the derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using valuation quotes provided by financial institutions based on prevailing market information.

40 Risk management objectives and policies

The group's financial liabilities comprise due to banks, short term and long term borrowings, trust certificates issued, leasing creditors and accounts payable and other liabilities. The main purpose of these financial liabilities is to raise finance for group operations. The group has various financial assets such as accounts receivable and other assets, bank balance and cash, murabaha and wakala investments, short term deposits and investment securities which arise directly from operations.

The group's activities expose it to variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The board of directors sets out policies for reducing each of the risks discussed below.

The group also enters into derivative transactions, primarily interest rate swaps. The purpose is to manage the interest rate risks arising from the group's sources of finance. The group's policy is not to trade in derivative financial instruments.

The most significant financial risks to which the group is exposed to are described below.

Notes to the consolidated financial statements (continued)

40 Risk management objectives and policies (continued)

40.1 Market risk

a) Foreign currency risk

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

The group mainly operates in the Middle East, USA and United Kingdom and is exposed to foreign currency risk arising, primarily from US Dollar, Saudi Riyal and GBP. The consolidated statement of financial position can be significantly affected by the movement in these currencies. 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. Foreign currency risk is managed on the basis of limits determined by the parent company's board of directors and a continuous assessment of the consolidated open positions.

The group's significant net exposure to foreign currency denominated monetary assets less monetary liabilities at the reporting date, translated into Kuwaiti Dinars at the closing rates are as follows:

	31 Dec. 2012 *Equivalent* KD '000	31 Dec. 2011 *Equivalent* KD '000
US Dollars	**(129,198)**	(256,718)
Saudi Riyals	**25,882**	23,239
GBP	**(11,249)**	(7,662)

The parent company's management estimates that a reasonable possible change in the above exchange rate would be 5%.

If the Kuwaiti Dinar had strengthened against the foreign currencies assuming the above sensitivity (5%), then this would have the following impact on the profit/loss for the year. There is no impact on the Group's other comprehensive income.

	Profit/increase/ Decrease in loss	
	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
US Dollars	**6,460**	12,836
Saudi Riyals	**(1,294)**	(1,162)
GBP	**562**	383
	5,728	12,057

If the Kuwaiti Dinar had weakened against the foreign currencies assuming the above sensitivity (5%), then there would be an equal and opposite impact on the profit/loss for the year, and the balances shown above would be negative for US Dollars and GBP and positive for Saudi Riyals (2011: negative for US Dollars, GBP and positive for Saudi Riyals).

Notes to the consolidated financial statements (continued)

40 Risk management objectives and policies (continued)

40.1 Market risk (continued)

a) Foreign currency risk (continued)

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.

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 on its short term deposits (refer note 32), trust certificates issued (refer note 27), short and long term borrowings (refer note 31 and 28) and due to banks which are both at fixed and floating interest rates. The risk is managed by the group by managing an appropriate mix between fixed and floating rate, short term deposits and borrowings.

Positions are monitored regular to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit/loss for the year to reasonable possible change of interest rate of +25 (0.25%) and -75 (0.75%) basis points with effect from the beginning of the year. The calculation is based on the group's financial instruments held at each reporting date. All other variables are held constant. There is no impact on group's other comprehensive income.

	Increase in interest rates		Decrease in interest rates	
	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000	**31 Dec. 2012 KD '000**	31 Dec. 2011 KD '000
Effect on profit/(loss) for the year	**(1,809)**	(1,972)	**5,427**	5,917

c) Equity price risk

This is a risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The group is exposed to equity price risk with respect to its listed equity investments which are primarily located in Kuwait, Jordan, Bahrain, Abu Dhabi, Saudi Arabia and USA. Equity investments are classified either as "investments at fair value through profit or loss" or "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 determined by the group.

The equity price risk sensitivity is determined on the exposure to equity price risks at the reporting date. If equity prices had been 10% higher/lower, the effect on the loss for the year and other comprehensive income for the year ended 31 December would have been as follows:

Notes to the consolidated financial statements (continued)

40 Risk management objectives and policies (continued)

40.1 Market risk (continued)

c) Equity price risk (continued)

A positive number below indicates a increase profit/(decrease in loss) and other comprehensive income where the equity prices increase by 10%. All other variables are held constant.

	Profit/(loss) for the year		Other comprehensive income	
	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000	**31 Dec. 2012 KD '000**	31 Dec. 2011 KD '000
Investments at fair value through profit or loss	**4,681**	5,632	**-**	-
Available for sale investments	**7,602***	7,093*	**30,906**	37,515
	12,283	12,725	**30,906**	37,515

* Had equity prices been higher by 10% the impairment loss which was recognised in the consolidated statement of income would be reduced and consequently the profit for the year 2012 would be higher and the loss for the year 2011 would be lower.

For a 10% decrease in the equity prices there would be an equal and opposite impact on the losses for the years and other comprehensive income and the amounts shown above would be negative.

40.2 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 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.

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

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Available for sale investments	**777,942**	826,038
Accounts receivable and other assets (refer note 21)	**57,334**	72,927
Murabaha and wakala investments	**11,293**	8,413
Investments at fair value through profit or loss	**61,992**	81,816
Short term deposits	**6,129**	79,041
Bank balances	**57,072**	35,724
	971,762	1,103,959

The group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The group's policy is to deal only with creditworthy counterparties. None of the above financial assets are past due nor impaired except for certain wakala investments referred to in note 22, certain available for sale investments and account receivable and other asset referred to in note 19 and 21 respectively. The group's management considers that all the above financial assets that are neither past due nor impaired for each of the reporting dates under review are of good credit quality.

Notes to the consolidated financial statements (continued)

40 Risk management objectives and policies (continued)

40.2 Credit risk (continued)

None of the group's financial assets are secured by collateral or other credit enhancements.

In respect of receivables, the group is not exposed to any significant credit risk exposure to any single counterparty. The credit risk for bank balances and short term deposits is considered negligible, since the counterparties are reputable financial institution with high credit quality. Information on other significant concentrations of credit risk is set out in note 40.3.

40.3 Concentration of assets

The distribution of financial assets by geographic region was as follows:

	Kuwait KD '000	Other Middle Eastern Countries KD '000	Asia & Africa KD '000	UK & Europe KD '000	USA KD '000	Total KD '000
At 31 December 2012						
Geographic region:						
Available for sale investments	234,494	322,582	84,973	85,405	50,488	777,942
Accounts receivable and other assets	27,121	19,670	1,021	9,405	117	57,334
Investments at fair value through profit or loss	37,090	6,658	1,821	13,513	2,910	61,992
Murabaha and wakala investments	11,293	-	-	-	-	11,293
Short-term deposits	1,636	-	-	4,493	-	6,129
Bank balances and cash	48,415	4,239	85	4,207	126	57,072
	360,049	353,149	87,900	117,023	53,641	971,762
At 31 December 2011						
Geographic region:						
Available for sale investments	269,392	322,175	85,335	60,658	88,478	826,038
Accounts receivable and other assets	31,291	25,676	2,536	13,077	347	72,927
Murabaha and wakala investments	8,413	-	-	-	-	8,413
Investments at fair value through profit or loss	44,824	7,149	1,909	2,553	25,381	81,816
Short-term deposits	56,181	-	-	-	22,860	79,041
Bank balances and cash	28,474	3,719	467	2,669	395	35,724
	438,575	358,719	90,247	78,957	137,461	1,103,959

40.4 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)

40 Risk management objectives and policies (continued)

40.4 Liquidity risk (continued)

The contractual maturities of financial liabilities based on undiscounted cash flows are as follows:

	Up to 1 month KD '000	1-3 months KD '000	3-12 months KD '000	1-5 Years KD '000	Total KD '000
31 December 2012					
Financial liabilities (undiscounted)					
Long-term borrowings	-	4,219	12,285	582,896	599,400
Leasing creditors	-	-	-	171	171
Accounts payable and other liabilities	7,578	31,646	10,212	-	49,436
Short-term borrowings	29,153	58,239	178,001	-	265,393
Due to banks	17,897	-	-	-	17,897
	54,628	94,104	200,498	583,067	932,297
31 December 2011					
Financial liabilities (undiscounted)					
Trust certificates	-	393	133,204	-	133,597
Long-term borrowings	-	4,134	12,567	450,388	467,089
Leasing creditors	-	-	-	325	325
Accounts payable and other liabilities	23,349	11,872	18,815	-	54,036
Short-term borrowings	7,646	41,748	321,883	-	371,277
Due to banks	23,656	-	-	-	23,656
	54,651	58,147	486,469	450,713	1,049,980

The group's short term borrowings principally represent revolving facilities with local and foreign banks and financial institutions. The group's management has successfully renewed all short term facilities which were classified as falling due within one month and one to three months.

41 Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments of the Group represent interest rate swaps.

The notional amounts and the fair value of the interest rates swaps at the reporting date based on the contractual maturity days are as follows:

	31 Dec. 2012 Notional amount KD '000	31 Dec. 2011 Notional amount KD '000	31 Dec. 2012 Negative fair value KD '000	31 Dec. 2011 Positive fair value KD '000
Interest rate swaps (denominated in US Dollars)	-	27,896	-	123

The above interest rate swap which was entered in 2008 represents a 4 year callable range accrual interest rate swap contract with a local bank and is based on 3 months LIBOR and was fully settled in September 2012.

The negative fair value of the interest rate swap as at 31 December 2011 amounted to KD123 thousand and the changes in fair values were recognised in the statement of income and the corresponding liabilities under "other liabilities". During the year the group has made net payments totalling to KD109 thousand to the banks to settle the quarterly payments due on the interest rate swap.

Notes to the consolidated financial statements (continued)

42 Staff shares

The parent company has an approved share issuance scheme to its senior management, where the parent company's shares can be issued to staff as bonus shares by utilizing its treasury shares, and the scheme will expire in 2016. However no staff shares were issued during the year 2011 and 2012.

43 Capital risk management

The group's capital management objectives are to ensure that the group maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholder value.

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, buy back shares, issue new shares or sell assets to reduce debt.

The capital structure for the group consists of the following:

	31 Dec. 2012 KD '000	31 Dec. 2011 KD '000
Trust certificates issued (refer note 27)	-	132,549
Long term borrowings (refer note 28)	523,935	394,993
Short term borrowings (refer note 31)	256,323	360,911
Due to banks	17,897	23,656
	798,155	912,109
Less :		
Murabaha and wakala investments	(11,293)	(8,413)
Short - term deposits	(6,129)	(79,041)
Bank balances and cash	(57,072)	(35,724)
Net debt	723,661	788,931
Total equity	523,918	516,189

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by the total equity as follows:

	31 Dec. 2012 %	31 Dec. 2011 %
Net debt to equity ratio	138	153

44 Contingent liabilities

At 31 December 2012, the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD11,858 thousand (2011: KD14,164 thousand).

Notes to the consolidated financial statements (continued)

45 Fiduciary assets

One of the subsidiaries of the group manages mutual funds, portfolios on behalf of related and third parties, and maintains securities in fiduciary accounts which are not reflected in the consolidated statement of financial position. Assets under management at 31 December 2012 amounted to KD26,996 thousand (2011: KD43,032 thousand) of which assets managed on behalf of related parties amounted to KD8,444 thousand (2011: KD8,930 thousand).

46 Capital commitments

At the reporting date the group had commitments for the purchase of investments and the acquisition of property, plant and equipment totalling KD28,219 thousand (2011: KD30,521 thousand).

At the reporting date, the group had commitment to pay lease rentals amounting to KD4,917 thousand (2011: KD6,743 thousand).

47 Comparative information

Certain comparative amounts in the consolidated financial statements have been restated as described in note 35 due to the early adoption of IAS 19. Further, the comparative consolidated statement of income has been re-presented as if an operation discontinued during the current year has been discontinued from the start of the comparative year (refer note 36).

In addition certain other comparative figures has been reclassified to conform to the presentation in the current year, and such reclassification does not affect previously reported net assets, net equity and net results for the year or net decrease in cash and cash equivalents.