Consolidated financial statements and independent auditors' report

National Industries Group Holding – KPSC and Subsidiaries

Kuwait

31 December 2013

Contents

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Independent auditors' report

To the shareholders of
National Industries Group Holding – KPSC
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Industries Group Holding – KPSC ("The Parent Company") and its subsidiaries, (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, 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 2013, 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 Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.25 of 2012 and by the Parent Company's articles and memorandum 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 Parent Company's articles and memorandum of association, as amended, have occurred during the year that might have had a material effect on the business or financial position of the Parent Company.

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

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

Kuwait
30 March 2014

Consolidated statement of profit or loss

	Note	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000 (Restated)
Continuing operations			
Sales		**109,601**	106,443
Cost of sales		**(83,884)**	(80,561)
Gross profit		**25,717**	25,882
Income from investments	8	**48,659**	45,980
Share of results of associates	17	**18,398**	16,647
Profit/(loss) on disposal of associates	17	**889**	(154)
Dilution loss on associate	17	**-**	(253)
Gain/(loss) on disposal of property, plant and equipment	16	**1,693**	(7)
Realised gain on disposal of investment properties		**-**	60
Changes in fair value of investment properties	18	**1,891**	2,025
Rental, interest and other income	9	**7,279**	7,336
Distribution costs		**(5,427)**	(4,663)
General, administrative and other expenses		**(21,524)**	(21,882)
Reversal of provision for onerous property leases and dilapidations	28	**138**	1,939
		77,713	72,910
Finance costs	11	**(34,841)**	(38,883)
Impairment in value of available for sale investments	19c	**(24,706)**	(12,499)
Impairment in value of investment in associates		**(118)**	(584)
Impairment in value of receivables and other assets	21	**(898)**	(1,381)
Loss on foreign currency exchange		**(862)**	(3,232)
Profit before taxation, other statutory contributions and directors' remunerations		**16,288**	16,331
Taxation and other statutory contributions	12	**(1,375)**	(1,143)
Directors' remuneration		**(90)**	-
Profit for the year from continuing operations		**14,823**	15,188
Discontinued operations			
Profit for the year from discontinued operations	34	**1,824**	2,569
Profit for the year	13	**16,647**	17,757
Attributable to :			
Owners of the parent		**10,176**	12,981
Non-controlling interests		**6,471**	4,776
		16,647	17,757
Basic and diluted earnings per share attributable to the owners of the parent	14		
- From continuing operations		**6.7 Fils**	8.3 Fils
- From discontinued operations		**1.4 Fils**	2.0 Fils
Total		**8.1 Fils**	10.3 Fils

The notes set out on pages 10 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Profit for the year	**16,647**	17,757
Other comprehensive income:		
Items to be reclassified to profit or loss in subsequent periods:		
Exchange differences arising on translation of foreign operations	**(2,959)**	(1,250)
Available for sale investments:		
- Net changes in fair value arising during the year	**29,255**	(5,671)
- Transferred to consolidated statement of profit or loss on disposal	**(22,147)**	(12,884)
- Transferred to consolidated statement of profit or loss on impairment	**24,706**	12,499
Share of other comprehensive income of associates		
- Changes in fair value	**2,702**	4,092
Total other comprehensive income to be reclassified to profit or loss in subsequent periods	**31,557**	(3,214)
Items not to be reclassified to profit or loss in subsequent periods		
Defined benefit plan actuarial gains/(losses)	**13**	(2,719)
Total other comprehensive income not being reclassified to profit or loss in subsequent periods	**13**	(2,719)
Total other comprehensive income for the year	**31,570**	(5,933)
Total comprehensive income for the year	**48,217**	11,824
Total comprehensive income for the year attributable to:		
Owners of the parent	**33,304**	10,625
Non-controlling interests	**14,913**	1,199
	48,217	11,824

The notes set out on pages 10 to 77 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Note	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Assets			
Non-current assets			
Goodwill	15	9,221	7,083
Property, plant and equipment	16	70,712	63,994
Investment in associates	17	294,406	287,497
Investment properties	18	49,943	25,259
Available for sale investments	19	673,285	698,095
Accounts receivable	21	2,086	1,969
Total non-current assets		1,099,653	1,083,897
Current assets			
Inventories	20	31,908	25,644
Available for sale investments	19	75,958	79,847
Accounts receivable and other assets	21	66,174	62,176
Murabaha and wakala investments	22	4,500	11,293
Investments at fair value through profit or loss	23	65,199	61,992
Short-term deposits	31	2,061	6,129
Bank balances and cash	31	32,253	57,072
Total current assets		278,053	304,153
Total assets		1,377,706	1,388,050
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	24	129,510	129,510
Treasury shares	25	(30,375)	(30,375)
Share premium	24	122,962	122,962
Cumulative changes in fair value	26	164,439	140,199
Other components of equity	26	18,552	16,921
Retained earnings		10,344	2,911
Equity attributable to owners of the parent		415,432	382,128
Non-controlling interests	26	147,976	141,790
Total equity		563,408	523,918
Non-current liabilities			
Long-term borrowings	27	529,632	523,935
Leasing creditors		131	152
Provisions	28	12,688	15,139
Total non-current liabilities		542,451	539,226
Current liabilities			
Accounts payable and other liabilities	29	48,398	50,686
Short-term borrowings	30	200,375	256,323
Due to banks	31	23,074	17,897
Total current liabilities		271,847	324,906
Total liabilities		814,298	864,132
Total equity and liabilities		1,377,706	1,388,050

NI Group (S.A.K.)

Sa'ad Mohammed Al-Sa'ad
Chairman

Ahmad Mohammed Hassan
Chief Executive Officer

The notes set out on pages 10 to 77 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	Retained earnings KD '000	Sub-Total KD '000	Non-controlling interests KD '000	Total KD '000
Balance as at 1 January 2013	129,510	(30,375)	122,962	140,199	16,921	2,911	382,128	141,790	523,918
Transactions with owners									
Net increase in non-controlling interest on acquisition of subsidiary	-	-	-	-	-	-	-	747	747
Redemption of units by non controlling interests of subsidiary	-	-	-	-	-	-	-	(1,532)	(1,532)
Amount due to non-controlling interests on reduction of share capital of subsidiary	-	-	-	-	-	-	-	(6,642)	(6,642)
Dividend paid to non-controlling interests by subsidiaries	-	-	-	-	-	-	-	(4,558)	(4,558)
Other net changes in non-controlling interests	-	-	-	-	-	-	-	3,258	3,258
Total transactions with owners	-	-	-	-	-	-	-	(8,727)	(8,727)
Comprehensive income									
Profit for the year	-	-	-	-	-	10,176	10,176	6,471	16,647
Other comprehensive income for the year [Actuarial losses and others (refer note 26b)	-	-	-	24,240	(1,125)	13	23,128	8,442	31,570
Total comprehensive income for the year	-	-	-	24,240	(1,125)	10,189	33,304	14,913	48,217
Reserve transfers of subsidiaries	-	-	-	-	2,756	(2,756)	-	-	-
Balance at 31 December 2013	**129,510**	**(30,375)**	**122,962**	**164,439**	**18,552**	**10,344**	**415,432**	**147,976**	**563,408**

The notes set out on pages 10 to 77 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)/ retained earnings KD '000	Sub-Total KD '000	Non-controlling interests KD '000	Total KD '000
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 77 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000 (Restated)
OPERATING ACTIVITIES		
Profit before taxation, other statutory contributions and directors' remuneration	16,288	16,331
Adjustments:		
Depreciation of property, plant and equipment	9,646	6,290
Changes in fair value of investment properties	(1,891)	(2,025)
(Gain)/loss on disposal of property, plant and equipment	(1,693)	7
(Gain)/loss on disposal of associates	(889)	154
Realised gain on disposal of investment properties	-	(60)
Impairment in value of investment in associates	118	584
Share of results of associates	(18,398)	(16,647)
Dilution loss on associate	-	253
Reversal of impairment provision of wakala investment	(874)	-
Dividend income from available for sale investments	(19,583)	(20,016)
Profit on sale of available for sale investments	(21,902)	(20,312)
Impairment in value of receivable and other assets	898	1,381
Effect of discounting on accounts receivable	(401)	(407)
Impairment in value of available for sale investments and wakala investments	24,706	12,499
Deemed gain on available for sale investments	(2,880)	-
Net provisions (released)/charged	(2,451)	17
Finance costs	34,841	38,883
Interest/profit on bank balances, short-term deposits, wakala and murabaha investments	(531)	(1,528)
	15,004	15,404
Changes in operating assets and liabilities:		
Inventories	(6,264)	(721)
Accounts receivable and other assets	(8,710)	13,424
Investments at fair value through profit or loss	(3,207)	19,824
Accounts payable and other liabilities	2,906	(1,273)
Cash (used in)/from operations	(271)	46,658
KFAS and Zakat contribution paid	(482)	(355)
NLST paid	(33)	(335)
Taxation paid	(249)	(386)
Net cash (used in)/from continuing operations	(1,035)	45,582
Net cash from discontinuing operations	(190)	(192)
Net cash (used in)/from operating activities	(1,225)	45,390

Consolidated statement of cash flows (continued)

	Note	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000 (Restated)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(8,363)	(7,429)
Proceeds from disposal of property, plant and equipment		2,471	160
Proceeds from disposal of investment properties		-	50
Acquisition of subsidiaries		(2,267)	-
Additions to investment properties		(17,814)	(10,462)
Investment in an associates		(10,820)	(2,910)
Dividend received from associate companies		8,201	7,779
Proceeds from disposal of associate		7,020	6,849
Proceeds from redemption of units of associate		-	4,078
Cash received from impairment wakala		874	-
Decrease/(increase) in wakala investments maturing after three months		6,793	(3,880)
Increase in blocked deposits		6,272	(7,581)
Purchase of available for sale investments		(27,559)	(20,851)
Proceeds from sale of available for sale investments		80,416	65,627
Dividend income received from available for sale investments		19,583	20,016
Interest/profit on bank balances, short-term deposits, wakala and murabaha investments		548	1,550
Net cash from investing activities		65,355	52,996
FINANCING ACTIVITIES			
Net (decrease)/increase in long-term borrowings		(72,123)	74,942
Finance lease payments		(49)	(131)
Net increase/(decrease) in short-term borrowings		21,872	(183,137)
Dividend paid to the owners of the parent		(47)	(109)
Finance costs paid		(32,841)	(40,254)
Decrease in non-controlling interests		(8,727)	(4,095)
Net cash used in financing activities		(91,915)	(152,784)
Net decrease in cash and cash equivalents		(27,785)	(54,398)
Translation difference		(7)	12
		(27,792)	(54,386)
Cash and cash equivalents at beginning of the year		37,608	91,994
Cash and cash equivalents at end of the year	31	9,816	37,608

The notes set out on pages 10 to 77 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Incorporation and activities

National Industries Group Holding – KPSC ("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.

The Companies Law issued on 26 November 2012 by Decree Law no 25 of 2012 (the "Companies Law"), which was published in the Official Gazette on 29 November 2012, cancelled the Commercial Companies Law No 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Law No. 97 of 2013.

On 29 September 2013, Ministry of Commerce and Industry issued its regulation No. 425/2013 regarding the Executive by-laws of the Companies Law. All existing companies are required to comply with articles of these by-laws within one year from the date of its issuance.

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 30 March 2014. 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 profit or loss" and a "statement of comprehensive income".

Notes to the consolidated financial statements (continued)

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.

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 adoption of new and amended standards discussed below:

4.1 New and amended standards adopted by the Group

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 Consolidated Financial Statements, IFRS 13 Fair Value Measurement and amendments to IAS 1 Presentation of Financial Statements. In addition, the application of IFRS 12 Disclosure of Interest in Other Entities has resulted in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim consolidated financial statements of the Group.

The nature and the impact of each new standard/amendment is described below:

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

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 amendments to IAS 1 changed the current presentation of the consolidated statement of comprehensive income of the Group; however the amendment affected presentation only and had no impact on the Group's financial position or performance.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group (continued)

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated 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. To meet the definition of control in IFRS 10, all nine criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. 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. IFRS 10 did not change the classification (as subsidiaries or otherwise) of any of the Group's existing investees, except for consolidation of a subsidiaries noted in note 17.6.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures
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. As a consequence of the new IFRS 11, IAS 28 brings investments in joint ventures into its scope, however, the equity accounting methodology under IAS 28 remains unchanged.

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. IFRS 12 disclosures are provided in Note 7 and 17.

IFRS 13 Fair Value Measurement
IFRS 13 does not affect which items to be fair valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. The scope of IFRS 13 is broad and it applies for both financial and non-financial items for which other IFRSs require or permit fair value measurements or disclosures about fair value measurements except in certain circumstances. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. Its disclosure requirements need not be applied to comparative information in the first year of application. The Group has however included as comparative information the IFRS 13 disclosures that were required previously by IFRS 7, 'Financial Instruments; Disclosures'.

The group has applied IFRS 13 for the first time in the current year, see Note 37.3 and 37.4.

IFRS 7 Financial Instruments: 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 required disclosures are required to be provided retrospectively.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.1 New and amended standards adopted by the Group (continued)

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (continued)
The adoption of this amendment did not have any significant impact on the financial position or performance of the group.

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 (amendments to IAS 1):
- clarifies that the appropriate date for the opening statement of financial position ("third balance sheet") is the beginning of the preceding period (related notes are no longer required to be presented)
- addresses comparative requirements for the opening statement of financial position when an entity changes accounting policies or makes retrospective restatements or reclassifications, in accordance with IAS 8.

Clarification of the requirements for comparative information provided beyond minimum requirements (amendments to IAS 1):
- 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 (Amendments to IAS 32):
- 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.

The amendment did not have an impact on the consolidated financial statements for the Group, as there is no tax consequences attached to cash or non-cash distribution.

Early adoption of IAS 19 Employee Benefits – amendments
During the previous year the Group elected to adopt the new provisions of IAS 19 (revised June 2012) '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 was done during the year 2012.

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.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

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 32 Financial Instruments: Presentation – amendments	1 January 2014
IAS 36 Impairment of Assets- Amendments	1 January 2014
IAS 39 Financial Instruments: Recognition and Measurement	1 January 2014
IFRS 9 Financial Instruments	To be determined
IFRIC 21 Levies	1 January 2014

4.2.1 IAS 32 Financial Instruments: Presentation - Amendments

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.

4.2.2 IAS 36 Impairment of Assets- Amendments

The amendments to IAS 36 reduces the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. The amendments are applicable to annual periods beginning on or after 1 January 2014. Management does not anticipate a material impact on the group's consolidated financial statements from these amendments.

4.2.3 IAS 39 Financial Instruments: Recognition and Measurement- Amendments

Under the IAS 39 amendments 'Novation of Derivatives and Continuation of Hedge Accounting' there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2014, with earlier application being permitted.

4.2.4 IFRS 9 Financial Instruments

The IASB aims to replace IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities, and hedge accounting have been issued. Chapter dealing with impairment methodology is still being developed. The effective date for the entire standard will be determined after completion of the new impairment model.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

4.2.4 IFRS 9 Financial Instruments (continued)

Further, in November 2013, the IASB made 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.

The group's management have yet to assess the impact of this new standard on the group's consolidated financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

4.2.6 IFRIC 21 Levies

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The Interpretation clarifies that 'economic compulsion' and the going concern principle do not create or imply that an obligating event has occurred.

IFRIC 21 provides the following guidance on recognition of a liability to pay levies, a) the liability is recognised progressively if the obligating event occurs over a period of time, and b) if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached. The Group is not currently subjected to any significant levies so this amendment is not expected to have a significant impact on the Group's financial statements. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014.

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 (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and they are deconsolidated from the date that control ceases. . 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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.1. Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the date the Group gains control, or until the date the Group ceases to control the subsidiary, as applicable.

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, as would be required if the Group has directly disposed of the related assets or liabilities.

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 profit or loss.

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 profit or loss.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

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 profit or loss. 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 34.

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. Revenue (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 profit or loss.

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.

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.

A financial asset (or, where applicable a part of financial asset or part of group of similar financial assets) is primarily 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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 profit or loss.

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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.14. Financial instruments (continued)

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

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.

All material income and expenses relating to financial assets that are recognised in profit or loss are presented within income from investments, interest & other income or under a separate headings in the consolidated statement of profit or loss.

- *Loans and receivables*

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

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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.14. Financial instruments (continued)

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

- *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.

- *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 receivables which are not categorised under any of the above are classified as "Other receivables/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 profit or loss 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 classified 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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.14. Financial instruments (continued)

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

- *AFS financial assets (continued)*

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

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

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:

- *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. Financial instruments (continued)

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

- *Ijara financing*

Ijara finance payable ending with ownership is an Islamic financing arrangement through which a financial institution provides finance to purchase an asset by way of renting the asset ending with transferring its ownership. This ijara finance payable is stated at the gross amount of the payable, net of deferred finance cost. Deferred finance costs are expensed on a time apportionment basis taking into account the borrowing rate attributable and the balance outstanding.

- *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.

Notes to the consolidated financial statements (continued)

5 Summary of significant accounting policies (continued)

5.14. Financial instruments (continued)

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

5.14.6. 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 37.

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:
- foreign currency translation reserve – comprises foreign currency translation differences arising from the translation of financial statements of the Group's foreign entities into KD and the Group's share of foreign currency translation reserves shown in the associates statement of financial position.
- 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. Foreign currency translation (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.

During the previous year the Group elected to early adopt the new provisions of IAS 19 (revised June 2012) 'Employee Benefits' and the accounting policy for the defined benefit schemes was 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.

During the previous year the accounting policy has been adopted retrospectively. (see note 33).

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 2012 and 2013, 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.

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.

6.1.3 Control assessment

When determining control, management considers whether the Group has the practical ability to direct the relevant activities of an investee on its own to generate returns for itself. The assessment of relevant activities and ability to use its power to affect variable return requires considerable judgement.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.1. Significant management judgments (continued)

6.1.4. Equity method accounting for entities in which the Group holds less that 20% of the voting rights

Management has assessed the level of influence that the Group has over its material associate, Mabanee Company - KPSC and determined that it has significant influence even though the share holding in this associate is below 20%, because of the factors mentioned in note 17.3. Consequently, this investment has been classified as an associate and has been accounted for using the equity method.

6.2. Estimates uncertainty

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

6.2.1 Impairment of 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 2013 the group recognised an impairment loss of KD118 thousand (2012: 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 2013 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 2013 the Group has recognised impairment losses on loans and receivables of KD898 thousand (2012: KD1,381 thousand).

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.2. Estimates uncertainty (continued)

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 KD33,142 thousand (2012: KD27,049 thousand), with provision for old and obsolete inventories of KD1,234 thousand (2012: KD1,405 thousand). Any difference between the amounts actually realised in future periods and the amount expected will be recognised in the consolidated statement of profit or loss.

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 profit or loss. 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 33).

Notes to the consolidated financial statements (continued)

7 Subsidiary companies

7.1 Details of the Group's material consolidated subsidiaries at the end of the reporting period are as follows:

	Country of registration and place of business	Nature of business	Proportion of ownership interest held by the Group 31 Dec. 2013 %	31 Dec. 2012 %
Al Durra National Real Estate – KSC (Closed)	Kuwait	Real Estate	**100**	100
Proclad Group Limited	UAE	Specialist Engineering	**100**	100
National Combined Industries Holding Company for Energy – KSC (Closed)	Kuwait	Investments	**100**	100
Pearl National Holding – KSC (Closed)	Kuwait	Investments	**100**	100
NIG (Guernsey) Limited	Guernsey	Specialist Engineering	**100**	100
NIC Holdings (UK) Plc	United Kingdom	Specialist Engineering	**100**	100
BI Group Plc	United Kingdom	Specialist Engineering	**100**	100
Economic Holding Company – KSC (Closed)	Kuwait	Investments	**100**	100
NI Group (Bahrain) EC	Bahrain	Investments	**100**	100
Eagle Proprietary Investments Limited	UAE	Investments	**100**	100
Pearl Offshore Enterprises Limited	BVI	Investments Holdings	**100**	100
Denham Investment LTD	Cayman Islands	Investments	**85**	85
Ikarus Petroleum Industries Company – KPSC	Kuwait	Petroleum	**72**	72
National Industries Company - KPSC	Kuwait	Industrial	**51**	51
Noor Financial Investment Company – KPSC	Kuwait	Investments	**51**	51

7.2 Subsidiaries with material non-controlling interests

The group includes three subsidiaries, with material non-controlling interests (NCI):

Name	Proportion of ownership interests and voting rights held by the NCI		Profit allocated to NCI		Accumulated NCI	
	31 Dec. 2013	31 Dec. 2012	**31 Dec. 2013 KD '000**	31 Dec. 2012 KD '000	**31 Dec. 2013 KD '000**	31 Dec. 2012 KD '000
Noor Financial Investment Company - KPSC (NFI)	**49%**	49%	**3,966**	(572)	**45,884**	51,439
National Industries Company - KPSC (NIC)	**49%**	49%	**(34)**	2,548	**46,945**	46,486
Ikarus Petroleum Industries Company – KPSC (IPI)	**28%**	28%	**3,074**	2,467	**49,317**	37,585
Individual immaterial subsidiaries with non-controlling interests			**(535)**	333	**5,830**	6,280
			6,471	4,776	**147,976**	141,790

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

Summarised financial information for the above subsidiaries, before intragroup eliminations, is set out below:

	31 December 2013		
	NFI KD '000	NIC KD '000	IPI KD '000
Non-current assets	143,556	70,701	190,694
Current assets	62,535	36,481	15,874
Total assets	206,091	107,182	206,568
Non-current liabilities	102,425	5,153	32,364
Current liabilities	39,089	18,793	961
Total liabilities	141,514	23,946	33,325
Equity attributable to the shareholders of the parent company	22,532	40,787	124,208
Non-controlling interest (including non controlling interests in the subsidiary's statement of financial position)	42,045	42,449	49,035

	31 December 2012		
	NFI KD '000	NIC KD '000	IPI KD '000
Non-current assets	147,906	72,407	149,578
Current assets	71,310	38,753	20,624
Total assets	219,216	111,160	170,202
Non-current liabilities	128,515	7,031	-
Current liabilities	23,486	21,361	38,288
Total liabilities	152,001	28,392	38,288
Equity attributable to the shareholders of the parent company	20,688	41,124	94,577
Non-controlling interest(including non controlling interests in the subsidiary's statement of financial position)	46,527	41,644	37,337

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

	For the year ended 31 December 2013		
	NFI KD '000	NIC KD '000	IPI KD '000
Revenue	24,084	45,675	13,852
Profit for the year attributable to the shareholders of the parent company	4,587	315	7,906
Profit for the year attributable to NCI	2,637	364	3,121
Profit for the year	7,224	679	11,027
Other comprehensive income for the year attributable to the shareholders of the parent company	(2,743)	1,315	28,275
Other comprehensive income for the year attributable to NCI	(53)	1,282	11,162
Total other comprehensive income for the year	(2,796)	2,597	39,437
Total comprehensive income for the year attributable to the shareholders of the parent company	1,844	1,630	36,181
Total comprehensive income for the year attributable to NCI	2,584	1,646	14,283
Total comprehensive income for the year	4,428	3,276	50,464
Dividends paid to non controlling interests	-	(2,053)	(2,505)

	For the year ended 31 December 2012		
	NFI KD '000	NIC KD '000	IPI KD '000
Revenue	22,084	42,185	11,721
Profit for the year attributable to the shareholders of the parent company	2,290	2,548	6,416
Profit for the year attributable to NCI	2,562	2,133	2,533
Profit for the year	4,852	4,681	8,949
Other comprehensive income for the year attributable to the shareholders of the parent company	1,032	484	(14,473)
Other comprehensive income for the year attributable to NCI	886	470	(5,714)
Total other comprehensive income for the year	1,918	954	(20,187)
Total comprehensive income for the year attributable to the shareholders of the parent company	3,322	3,032	(8,057)
Total comprehensive income for the year attributable to NCI	3,448	2,603	(3,181)
Total comprehensive income for the year	6,770	5,635	(11,238)
Dividends paid to non controlling interests	-	(1,705)	(1,670)

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.2 Subsidiaries with material non-controlling interests (continued)

	For the year ended 31 December 2013		
	NFI KD '000	NIC KD '000	IPI KD '000
Net cash flow from operating activities	1,089	8,804	1,529
Net cash flow from investing activities	20,446	(423)	13,717
Net cash flow from financing activities	(25,007)	(11,423)	(15,760)
Net cash outflow	(3,472)	(3,042)	(514)

	For the year ended 31 December 2012		
	NFI KD '000	NIC KD '000	IPI KD '000
Net cash flow from operating activities	11,140	13,189	(6,234)
Net cash flow from investing activities	2,609	(4,600)	9,786
Net cash flow from financing activities	(26,498)	(5,289)	(2,355)
Net cash (outflow)/inflow	(12,749)	3,300	1,197

7.3 Losing control over a subsidiaries

Disposal of subsidiaries during the year 2013

Diamond H Controls Limited
A decision was made to put the subsidiary, Diamond H Controls Limited ('DHC'), into liquidation on 30 October 2013. 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 DHC. At the date of the effective disposal, the carrying amounts of DHC's net liabilities were as follows:

	KD '000
Total assets	10
Total liabilities	(2,217)
Total net liabilities	(2,207)
Profit recognised in the consolidated statement of profit or loss under discontinued operations	**2,207**

BI Electric (Shenzhen) Limited
A decision was made to put the subsidiary, BI Electric (Shenzhen) Limited ('BIE'), itself a subsidiary of Diamond Asia Controls Manufacturing (Hong Kong) Limited, into liquidation on 30 September 2013. 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 BIE. At the date of the effective disposal, the carrying amounts of BIE's net liabilities were as follows:

	KD '000
Total assets	226
Total liabilities	(229)
Total net liabilities	(3)
Profit recognised in the consolidated statement of profit or loss under discontinued operations	**3**

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.3 Losing control over a subsidiary (continued)

Consideration
As the above companies were put into liquidation, management does not anticipate that any consideration will be received.

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

7.5 Pearl Offshore Enterprises Limited is a special purpose vehicle (SPV) which was incorporated during the year 2011 and assets with a carrying value of KD86,156 thousand (2012: KD43,953 thousand) and liabilities of KD47,044 thousand (2012: KD20,936 thousand) of the parent company are held by the SPV.

8 Income from investments

	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Dividend income:		
- From investments at fair value through profit or loss	**233**	818
- From available for sale investments	**19,583**	20,016
Profit on sale of available for sale investments	**21,902**	20,312
Realised gain on investments at fair value through profit or loss	**114**	1,795
Unrealised gain on investments at fair value through profit or loss	**3,947**	3,039
Deemed gain on acquisition of available for sale investments*	**2,880**	-
	48,659	45,980

* This represents the gain which has arisen as a result of the return of shares of a local quoted financial institution by the Charity which was set up by the Parent Company under the Kuwait Ministry of Social Affairs and Labour. The shares which were originally donated to the Charity by the Parent Company in the past was returned by the Charity during the year as per the Instructions from the relevant authorities who stated that the shares held were in violation of certain laws applicable to the Charity. The fair value of the shares transferred as of the transfer date has been recognised as income under income from investments during the current year.

9 Rental, interest and other income

	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Rental income	**1,683**	1,271
Interest/profit on bank balances, short term deposits, murabaha and wakala investments	**531**	1,528
Income from financing of future trade by customers	**355**	278
Effect of unwinding of discount on receivables	**401**	407
Net income from hotel operation from foreign subsidiary*	**180**	347
Net income from IT services of subsidiary*	**993**	361
Reversal of impairment provision on wakala investment (note 22)	**874**	-
Management and placement fees	**306**	734
Gain on bargain purchase of a subsidiary	**194**	-
Others	**1,762**	2,410
	7,279	7,336

Notes to the consolidated financial statements (continued)

9 Rent, interest and other income (continued)

* Details of net income from IT and related services of local subsidiaries and hotel operations from a foreign subsidiary are as follows:

	IT services		Hotel operations	
	Year ended 31 Dec. 2013 KD	Year ended 31 Dec. 2012 KD	Year ended 31 Dec. 2013 KD	Year ended 31 Dec. 2012 KD
Revenue	**5,118**	1,407	**2,136**	2,574
Less: Operating costs	**(4,125)**	(1,046)	**(1,956)**	(2,227)
	993	361	**180**	347

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. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Loans and receivables		
- bank balances and short term deposits	**339**	1,365
- murabaha and wakala investments	**192**	163
- account receivable and other assets (income from future trade)	**355**	278
- impairment in value of receivable and other assets	**(898)**	(1,381)
- effect on unwinding of discount on receivable	**401**	407
- Reversal of impairment provision on wakala investment	**874**	-
At fair value through profit or loss		
- held for trading	**2,628**	3,192
- designated as such on initial recognition	**1,666**	2,460
- net gain from dealing in interest rate swaps	**-**	14
Available for sale investments		
- recognised in other comprehensive income (including non-controlling interests share)	**31,814**	(6,056)
- recycled from other comprehensive income to consolidated statement of profit or loss		
• On impairment	**(24,706)**	(12,499)
• On disposal	**22,147**	12,884
- recognised directly in consolidated statement of profit or loss	**22,218**	27,444
	57,030	28,271
Net gain recognised in the consolidated statement of profit or loss	**25,216**	34,327
Net gain/(loss) recognised in the other comprehensive income	**31,814**	(6,056)
	57,030	28,271

11 Finance costs

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

Notes to the consolidated financial statements (continued)

12 Taxation and other statutory contributions

(a) Taxation of foreign subsidiaries*

	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Current tax expense		
Current year charge	(676)	(304)
Deferred tax expense		
Current year credit/(charge)	208	(3)
	(468)	(307)

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

	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Contributions to Kuwait Foundation for Advancement of Science (KFAS)	(196)	(192)
Provision for National Labour Support Tax (NLST)	(513)	(447)
Provision for Zakat	(198)	(197)
	(907)	(836)
	(1,375)	(1,143)

*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 (2012: Nil) as the net taxable results attributable to the parent company was a loss.

13 Profit for the year

Profit for the year is stated after charging:

	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Staff costs	27,553	29,020
Depreciation	9,646	6,290

The number of staff employed by the parent company at 31 December 2013 was 67 (2012: 66)

Notes to the consolidated financial statements (continued)

14 Basic and diluted earnings per share attributable to the owners of the parent

Earnings per share is calculated by dividing the profit 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. 2013	Year ended 31 Dec. 2012 (Restated)
Profit for the year attributable to the owners of the parent (KD '000)		
- from continuing operations	8,352	10,412
- from discontinued operations	1,824	2,569
Total	10,176	12,981
Weighted average number of shares outstanding during the year (excluding treasury shares) – shares	**1,261,959,044**	1,261,959,044
Basic and diluted earnings per share		
- from continuing operations	**6.7 Fils**	8.3 Fils
- from discontinued operations	**1.4 Fils**	2.0 Fils
Total	**8.1 Fils**	10.3 Fils

15 Goodwill

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Balance at 1 January	7,083	6,760
Additions	1,990	-
Foreign exchange adjustment	148	323
	9,221	7,083

Notes to the consolidated financial statements (continued)

16 Property, plant and equipment

Year ended 31 December 2013

	Land KD '000	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 2013	-	15,818	120	30,449	76,030	10,628	13,423	1,996	5,819	154,283
Foreign exchange adjustments	-	155	-	-	691	2	(2)	80	-	**926**
Additions/transfer and due to consolidation of new subsidiaries (refer note 17.6)	1,945	737	2	5,122	9,334	667	848	636	(2,448)	**16,843**
Write off	-	-	-	(131)	(1,182)	(403)	(379)	-	-	**(2,095)**
Disposals	(580)	-	(51)	(196)	(479)	(44)	(218)	-	-	**(1,568)**
At 31 December 2013	**1,365**	**16,710**	**71**	**35,244**	**84,394**	**10,850**	**13,672**	**2,712**	**3,371**	**168,389**
Accumulated depreciation and impairment losses										
At 1 January 2013	-	2,112	40	22,677	45,914	8,804	9,281	1,461	-	90,289
Foreign exchange adjustments	-	18	2	1	482	5	(2)	37	-	**543**
Charge for the year	-	638	5	1,065	6,618	822	469	29	-	**9,646**
Write off	-	-	-	(131)	(1,158)	(386)	(336)	-	-	**(2,011)**
Relating to disposals	-	-	(5)	(196)	(339)	(43)	(207)	-	-	**(790)**
At 31 December 2013	**-**	**2,768**	**42**	**23,416**	**51,517**	**9,202**	**9,205**	**1,527**	**-**	**97,677**
Net book value										
At 31 December 2013	**1,365**	**13,942**	**29**	**11,828**	**32,877**	**1,648**	**4,467**	**1,185**	**3,371**	**70,712**

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.

Furthermore, during the year, one of the Group's subsidiary's disposed a land which had carrying value of KD580 thousand for a consideration of KD2,273 thousand, realising a gain of KD1,693 thousand.

Notes to the consolidated financial statements (continued)

16 Property, plant and equipment (continued)

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

Notes to the consolidated financial statements (continued)

17 Investment in associates

Details of the Group's material associates at the end of the reporting period are as follows:

	Country of registration and principal place of business	Nature of business	Percentage ownership	
			31 Dec. 2013	31 Dec. 2012
Meezan Bank Ltd – (Quoted)* (Note 17.2)	Pakistan	Islamic banking	**49**	49
Privatization Holding Company – KPSC (Quoted)	Kuwait	Financial services	**33**	34
Kuwait Cement Company – KPSC (Quoted)	Kuwait	Industrial	**26**	25
Airport International Group - P.S.C	Jordan	Airport operations	**24**	24
Mabanee Company - KPSC - (Quoted)	Kuwait	Real estate	**19**	19

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Movement during the year is as follows:		
Balance at 1 January	**287,497**	283,126
Additions during the year	**10,820**	6,690
Capital reduction and redemption of units by associates	**-**	(4,078)
Share of results	**18,398**	16,647
Share of other comprehensive income	**2,702**	4,092
Dividend received	**(8,201)**	(7,779)
Dilution loss of an associate (refer 17.3)	**-**	(253)
Disposal of associates	**(6,131)**	(7,003)
Impairment in value	**(118)**	(584)
Reclassification of remaining investment to available for sale investments on disposal	**-**	(1,297)
Reclassification (Note 17.6)	**(5,084)**	-
Foreign currency translation adjustment	**(3,349)**	(2,247)
Other adjustments	**(2,128)**	183
Balance at the end of the year	**294,406**	287,497

17.1 All of the above named associates are accounted for using the equity method in these consolidated financial statements.

17.2 On 16 December 2013, one of the local subsidiaries entered into a Sale & Purchase Agreement ("SPA") with a foreign buyer to sell the entire stake (49% holding) in Meezan Bank Ltd., for a consideration of approx KD53.5M (equivalent of USD 190M). The SPA stated that the sale will be finalized and the share transfer to the buyer will occur only upon obtaining regulatory and all necessary approvals including those from State Bank of Pakistan which the Group's management expected to occur by 15 April 2014. However subsequent to the reporting date on 12th March 2014, the buyer was declined regulatory approval by State Bank of Pakistan (SBP) which is the primary step in the sale process. Consequently, management of the Group is of the view that the occurrence of the sale is highly unlikely and does not intend to seek for any new buyers in the foreseeable future and thus has retained the classification of the investment as an associate.

17.3 During the previous year, one of the group's associate, Mabanee Company - KPSC 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 - KPSC, the group exercises significant influence over the associate by way of board representation.

17.4 A major portion of an associate with a carrying value of KD90,233 thousand (2012: KD83,941 thousand) have been subject to an exchangeable option (note 27 c).

Notes to the consolidated financial statements (continued)

17 Investment in associates (continued)

17.5 During the current year, the group partially disposed an insignificant stake in two of its quoted associate's which resulted in a net gain of KD701 thousand. Further during the year, group disposed another two of its associates with a realised gain of KD188 thousand.

17.6 Consequent to the adoption of IFRS 10 – "consolidated financial statements", the Group has reclassified two of its investment in associates (which were individually not significant to the Group) to subsidiaries and has consolidated it to the Group during current the year as the impact of the consolidation of these new subsidiaries to the Group is not material both for the current and previous years.

17.7 Summarised financial information in respect of each of the Group's material associates named above, are set out below. The summarised financial information below represents the amounts presented in the financial statements of the associates (and not the Groups share of those amounts) adjusted for differences in accounting policies between the Group and the associate.

17.7.1 Mabanee Company - KPSC

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Non-current assets	662,451	646,600
Current assets	29,800	17,791
Non-current liabilities	(120,014)	(134,945)
Current liabilities	(56,305)	(54,921)
Non controlling interest	(89)	(506)
Equity attributable to the shareholders of the associate	515,843	474,019

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Revenue	63,604	36,508
Profit for the year	53,750	33,414
Other comprehensive income for the year	807	46
Total comprehensive income for the year	54,557	33,460
Dividends received from the associate during the year	2,426	1,134

A reconciliation of the above summarised financial information to the carrying amount of the investment in Mabanee Company - KPSC is set out below:

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Net assets of the associate attributable to the shareholders of the associate	515,843	474,019
Proportion of the Group's ownership interest	18.53%	18.96%
Interest in the associate	95,586	89,874
Goodwill	13,098	13,154
Other Adjustments	811	1,187
Carrying value of the investment	109,495	104,215

Notes to the consolidated financial statements (continued)

17 Investment in associates (continued)

17.7.1 Mabanee Company – KPSC (Continued)

As at 31 December 2013 the fair value of the Group's interest in Mabanee Company - KPSC, which is listed on the Kuwait Stock Exchange was KD146,050 thousand (2012: KD140,694 thousand), based on the quoted market price available on the exchange, which is a level 1 Input in terms of IFRS 13.

17.7.2 Kuwait Cement Company – KPSC

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Non-current assets	**243,807**	224,220
Current assets	**66,937**	61,984
Non-current liabilities	**(75,448)**	(107,131)
Current liabilities	**(41,150)**	(27,439)
Equity	**194,146**	151,634

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Revenue	**69,035**	61,063
Profit for the year	**17,160**	14,782
Other comprehensive income for the year	**3,538**	(1,466)
Total comprehensive income for the year	**20,698**	13,316
Dividends received from the associate during the year	**2,436**	2,436

A reconciliation of the above summarised financial information to the carrying amount of the investment in Kuwait Cement Company – KPSC is set out below:

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Net assets of the associate attributable to the shareholders of the associate	**194,146**	151,634
Proportion of the Group's ownership interest in the associate	**25.617%**	25.467%
Interest in the associate	**49,734**	38,617
Goodwill	**14,893**	14,893
Other Adjustments	**4,255**	2,646
Carrying value of the investment	**68,882**	56,156

As at 31 December 2013 the fair value of the Group's interest in Kuwait Cement Company – KPSC, which is listed on the Kuwait Stock Exchange was KD67,625 thousand (2012: KD71,454 thousand), based on the quoted market price available on the exchange, which is a level 1 Input in terms of IFRS 13.

17.7.3 Meezan Bank Ltd.

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Non-current assets	**394,529**	469,289
Current assets	**493,496**	333,192
Non-current liabilities	**(464,118)**	(400,872)
Current liabilities	**(369,152)**	(349,443)
Equity	**54,755**	52,166

Notes to the consolidated financial statements (continued)

17 Investment in associates (continued)

17.7.3 Meezan Bank Ltd. (continued)

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Revenue	**39,787**	36,485
Profit for the year	**12,515**	12,204
Other comprehensive income for the year	**(1,854)**	1,820
Total comprehensive income for the year	**10,661**	14,024
Dividends received from the associate during the year	**1,833**	2,045

A reconciliation of the above summarised financial information to the carrying amount of the investment in Meezan Bank Ltd is set out below:

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Net assets of the associate attributable to the shareholders of the associate	**54,755**	52,166
Proportion of the Group's ownership interest in the associate	**49.11%**	49.11%
Interest in the associate	**26,891**	25,618
Goodwill	**7,590**	9,198
Carrying value of the investment	**34,481**	34,816

As at 31 December 2013 the fair value of the Group's interest in Meezan Bank Ltd, which is listed on the Karachi Stock Exchange was KD51,836 thousand (2012: KD38,636 thousand), based on the quoted market price available on that exchange, which is a level 1 input in terms of IFRS 13.

17.7.4 Privatization Holding Company – KPSC

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Non-current assets	**137,698**	121,250
Current assets	**41,074**	50,576
Non-current liabilities	**(16,055)**	(15,443)
Non controlling interests	**(805)**	(698)
Current liabilities	**(59,313)**	(47,737)
Equity	**102,599**	107,948

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Revenue	**10,938**	14,209
(Loss)/profit for the year	**(1,202)**	4,240
Other comprehensive income for the year	**(539)**	4,856
Total comprehensive income for the year	**(1,741)**	9,096
Dividends received from the associate during the year	**1,474**	1,258

Notes to the consolidated financial statements (continued)

17 Investment in associates (continued)

17.7.4 Privatization Holding Company – KPSC (continued)

A reconciliation of the above summarised financial information to the carrying amount of the investment in Privatization Holding Company – KPSC is set out below:

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Net assets of the associate attributable to the shareholders of the associate	**102,599**	107,948
Proportion of the Group's ownership interest in the associate	**33.3%**	34%
Interest in the associate	**34,152**	36,775
Other Adjustments	**(1,791)**	(1,397)
Carrying value of the investment	**32,361**	35,378

As at 31 December 2013 the fair value of the Group's interest in Privatization Holding Company – KPSC, which is listed on the Kuwait Stock Exchange was KD16,701 thousand (2012: KD22,384 thousand), based on the quoted market price available on the exchange, which is a level 1 Input in terms of IFRS 13.

17.7.5 Airport International Group P.S.C

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Non-current assets	**231,427**	224,618
Current assets	**24,836**	21,577
Non-current liabilities	**(102,105)**	(102,372)
Current liabilities	**(29,943)**	(30,916)
Equity	**124,215**	112,907

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Revenue	**43,473**	39,395
(Loss)/profit for the year	**(3,637)**	10,373
Other comprehensive income for the year	**7,086**	-
Total comprehensive income for the year	**3,449**	10,373

A reconciliation of the above summarised financial information to the carrying amount of the investment in Airport International Group P.S.C is set out below:

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Net assets of the associate attributable to the shareholders of the Group	**124,215**	112,907
Proportion of the Group's ownership interest	**24%**	24%
Interest in the associate	**29,812**	27,098
Other Adjustments	**553**	(205)
Carrying value of the investment	**30,365**	26,893

Airport International Group P.S.C, is an unquoted investment.

Notes to the consolidated financial statements (continued)

17 Investment in associates (continued)

17.8 Aggregate information of associates that are not individually material to the Group

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
The Group's share of profit for the year	**(1,600)**	(2,895)
The Group's share of other comprehensive income for the year	**(3,110)**	(784)
The Group's share of total comprehensive income	**(4,710)**	(3,679)
Aggregate carrying amount of the Group's interest in these associates as of the reporting date	**18,822**	30,039

17.9 The group's share of associates' contingent liabilities amounted to KD75,198 thousand (2012: KD63,140 thousand). This includes the group's share of contingent liabilities related to a foreign bank (Meezan Bank Ltd.) which amounted to KD40,662 thousand (2012: KD30,177 thousand).

18 Investment properties

The movement in investment properties is as follows:

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Fair value as at 1 January	**25,259**	13,912
Additions	**22,793**	10,462
Disposal	**-**	(1,140)
Change in fair value	**1,891**	2,025
	49,943	25,259

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

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Kuwait	**43,618**	24,944
Saudi	**5,925**	-
Jordan	**400**	315
Total	**49,943**	25,259

a) Investment properties are stated at fair value, which has been determined based on valuations performed by independent valuers. (refer note 37 for details)

b) Investments properties amounting to KD22,350 thousand (2012: KD13,700 thousand) are secured against bank loans (refer note 27). Further during the year the Group has acquired properties for a consideration of KD6,091 thousand in Kuwait which have been partly financed by Ijara Financing agreements amounting to KD3,000 thousand (refer note 30).

Notes to the consolidated financial statements (continued)

19 Available for sale investments

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Non Current		
Managed funds		
- Local	2,634	6,905
- Foreign	152,493	182,798
	155,127	189,703
Unquoted equity participations		
- Local	32,146	44,649
- Foreign	145,677	158,512
	177,823	203,161
Quoted shares		
- Local	109,730	108,089
- Foreign	230,605	197,142
	340,335	305,231
	673,285	698,095
Current		
Quoted shares (a)		
- Local	73,369	78,135
- Foreign	2,589	1,712
	75,958	79,847
	749,243	777,942

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).

b) Managed funds include investments in private equity funds with a carrying value of KD54,610 thousand (2012: KD75,410 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 KD6,512 thousand (2012 : KD6,622 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 KD18,194 thousand (2012: KD5,877 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 KD60,547 thousand (2012: KD79,283 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 KD162,216 thousand (2012: KD103,399 thousand) are secured against short term borrowings (refer note 30) and long term borrowings (refer note 27).

f) During the year the Group sold to its associate, unquoted investments with a carrying value of KD6,819 thousand for a consideration of KD7,666 thousand which resulted in a net gain of KD847 thousand. The consideration due has been reduced from the balance due to associates.

Notes to the consolidated financial statements (continued)

20 Inventories

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Finished goods and work-in-progress	14,179	12,102
Raw materials and consumables	15,680	11,752
Spare parts and others	2,961	2,630
Goods in transit	322	565
	33,142	27,049
Provision for obsolete and slow moving inventories	(1,234)	(1,405)
	31,908	25,644

21 Accounts receivable and other assets

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Financial assets		
Net trade receivables	22,819	19,371
Amount due on disposal of foreign investments properties (refer note 21b and 21c)	7,646	16,409
Amount due on disposal of local investment properties	-	1,150
Amounts due on sale of investments	2,438	101
Due from associates	2,331	4,708
Due from other related parties	1,068	1,144
Due from key management personnel	233	233
Advance payments to acquire investments	2,039	1,555
Due from Kuwait Clearing Company (future trade)	5,544	3,228
Due from investment brokerage companies	5,033	2,091
Interest and other accrued income	1,863	1,430
Other financial assets	12,588	5,914
	63,602	57,334
Less: amount due after one year	(2,086)	(1,969)
	61,516	55,365
Non-financial assets		
Other assets	4,658	6,811
	4,658	6,811
	66,174	62,176

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. 2013 KD '000	31 Dec. 2012 KD '000
Neither past due nor impaired	15,805	13,291
Past due but not impaired		
- less than 3 months	2,364	1,893
- 3 – 6 months	4,650	4,187
Total trade receivables	22,819	19,371

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.

Notes to the consolidated financial statements (continued)

21 Accounts receivable and other assets (continued)

b) During the year 2011, the Group disposed its investment property located in Saudi Arabia for a consideration of KD26,535 thousand and the total cash received on this sale up to 31 December 2012 amounted to KD9,914 thousand. Out of the balance of KD16,621 thousand (which was due in two installments in November 2012 and November 2013), during the period an amount of KD3,603 thousand was received in cash and the buyer partially settled the remaining balance due as of November 2012 by transferring another real estate property (Hotel property) situated in Saudi Arabia which has been valued at KD4,803 thousand. This property has been classified under investment property. The remaining balance due on sale of investment property is included in accounts receivable and other assets at 31 December 2013.

Subsequent to the reporting date the Group has further collected an amount of KD3,771 thousand from the amount due on sale of foreign investment properties. The Group's management expects the remaining amount to be collected during the year 2014.

c) 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. The effect of unwinding of discount for the year ended 31 December 2013 on this receivable amounted to KD401 thousand (2012: KD407 thousand) recognised in "Other income".

d) During the year, the Group recognised an impairment loss of KD898 thousand (2012: KD1,381 thousand) against trade and other receivables.

22 Murabaha and wakala investments

	Effective profit rate % (per annum) 2013	2012	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Due from a local Islamic investment company/ due from related parties	-	-	14,324	14,968
Provision for impairment in value			(14,324)	(14,968)
			-	-
Placed with local Islamic banks	0.25%-0.625%	0.375%-1.125%	4,500	11,293
			4,500	11,293

During the current year, the Group received an amount of KD874 thousand (including profit of KD230 thousand) from the above mentioned impaired wakala investment of a local Islamic investment company and recorded this as other income. The amount of wakala investment has been shown net of the principal amount recovered.

No other profit was recognised on impaired wakala investments during the current year (2012: Nil). Wakala investment of KD14,324 thousand (2012: 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.

Notes to the consolidated financial statements (continued)

22 Murabaha and wakala investments (continued)

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. The court has rejected the case during the current year and the subsidiary has appealed the court decisions.

23 Investments at fair value through profit or loss

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Held for trading :		
Quoted shares		
- Local	31,282	26,742
- Foreign	6,555	2,824
	37,837	29,566
Quoted debt instruments - foreign	276	2,815
	38,113	32,381
Designated on initial recognition :		
Local funds	11,030	14,426
International managed portfolios and funds	16,056	15,185
	27,086	29,611
	65,199	61,992

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 2013 is KD75,958 thousand (2012: KD79,847 thousand).

b). During 2008, a local money market funds, in which the group has investments totaling to KD1,616 thousand as at 31 December 2013 (2012: KD1,753 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 2013. The group's management expects to realise these investments at not less than its carrying value.

c). Quoted shares, held by local subsidiaries, with a fair value of KD11,502 thousand (2012: KD15,433 thousand) are secured against short term borrowings (refer note 30) and long term borrowings (refer note 27).

Notes to the consolidated financial statements (continued)

24 Share capital and share premium

a) As of 31 December 2013 and 2012, 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. 2013	31 Dec. 2012
Number of shares	33,139,123	33,139,123
Percentage of issued shares	2.56%	2.56%
Market value (KD '000)	7,688	7,025
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 2013 and 2012, one of the associate companies of the group held 115,582,837 (2012: 115,582,837) shares of the parent company's shares equivalent to 8.9% (2012: 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. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Balance at 1 January	140,199	139,662
Other comprehensive income:		
Net change in fair value of available for sale investments	20,880	(1,308)
Transferred to consolidated statement of profit or loss on disposal of available for sale of investments	(18,695)	(11,276)
Transferred to consolidated statement of profit or loss on impairment in value of available for sale investments	18,821	9,476
Share of fair value adjustment in associates	3,234	3,645
Other comprehensive income for the year	24,240	537
Balance at 31 December	164,439	140,199

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 2011	911	856	18,452	(3,096)	17,123
Offset of accumulated losses	(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
Reserve transfers of subsidiaries	1,371	1,385	-	-	2,756
Other comprehensive income:					
Currency translation differences	-	-	-	(1,125)	(1,125)
Balances at 31 December 2013	**2,603**	**1,892**	**18,452**	**(4,395)**	**18,552**

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. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Balance at 1 January	**141,790**	144,686
Net increase in non-controlling interests on acquisition of subsidiary	**747**	-
Redemption of units by non-controlling interests of subsidiary	**(1,532)**	-
Amount due to non-controlling interests on reduction of share capital of subsidiary	**(6,642)**	-
Dividend paid to non-controlling interests by the subsidiaries	**(4,558)**	(3,419)
Other net changes in non-controlling interests	**3,258**	(676)
Transactions with non-controlling interests	**(8,727)**	(4,095)
Profit for the year	**6,471**	4,776
Other comprehensive income :		
Exchange differences arising on translation of foreign operations	**(1,834)**	(1,076)
Net change in fair value of available for sale investments	**8,375**	(4,363)
Transferred to consolidated statement of profit or loss on disposal of available for sale investments	**(3,452)**	(1,608)
Transferred to consolidated statement of profit or loss on impairment in value of available for sale investments	**5,885**	3,023
Share of other comprehensive income of associates	**(532)**	447
Total other comprehensive income for the year	**8,442**	(3,577)
Total comprehensive income for the year	**14,913**	1,199
Balance at 31 December	**147,976**	141,790

Notes to the consolidated financial statements (continued)

27 Long-term borrowings

Currency	Effective Interest rate	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Conventional loans			
Kuwaiti Dinars (note 27c)	3.5% - 5%	**387,952**	361,483
US Dollars	1.75% - 3.25%	**63,170**	71,654
Euro	2% - 4.8%	**5,654**	4,995
		456,776	438,132
Less : Due within one year		**(68,318)**	(77,937)
		388,458	360,195
Islamic financing arrangements			
Murabaha payables (note 27c)	5%	**101,757**	101,950
Other Islamic financing arrangements	3.8% - 5.5%	**67,180**	66,190
		168,937	168,140
Less: Due within one year		**(27,763)**	(4,400)
		141,174	163,740
Total		**529,632**	523,935

a. During the year, the parent company has rescheduled Kuwaiti Dinar denominated loans amounting to KD37,332 thousand (2012: KD54,000 thousand) and US Dollar denominated loans equivalent to KD8,124 thousand (2012: KD Nil thousand) from short term loans to long term loans.

During 2011 and 2012, a local subsidiary of the Group restructured its financing arrangements with local banks and accordingly loans and wakala payables amounting to KD128,215 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 2013, these are partly secured (notes 18, 19 and 23).

Further, US Dollar loan equivalent of KD46,262 thousand (2012: KD23,264 thousand) and Kuwait Dinar loans of KD8,000 thousand (2012: KD8,000 thousand) are secured by certain available for sale investments (refer note 19).

Further to the initial agreement in 2012, during the current year one of the subsidiaries has completed the restructuring of the short term US Dollar loan (equivalent to KD32,881 thousand at 30 June 2013 and KD32,392 thousand at 31 December 2012) which was obtained from a local bank, by way of entering into an agreement with the same bank. As per the agreement the subsidiary received two secured long term loans aggregating to KD32,364 thousand (a US Dollar loan of 65,000 thousand equivalent to KD18,364 thousand at 31 December 2013 and KD loan of 14,000 thousand) which was utilised to repay the old US Dollar loan in full. As per the agreement the loans are to be repaid in instalments commencing from July 2015 and ending in January 2018, and the loan facilities are secured against quoted investments (refer note 19).

b. The Euro loans are secured against property, plant and equipment with a book value of KD1,287 thousand (2012: KD1,509 thousand). Also, other Islamic financing arrangement amounting to KD2,308 (2012: KD Nil) are secured against property, plant and equipment with a book value of KD2,826 thousand (2012: KD Nil).

c. Long term borrowings include KD101,757 thousand (2012: KD101,950 thousand) of Islamic and KD25,000 thousand (2012: 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 KD90,233 thousand (2012: KD83,941 thousand). Under the terms of the agreements, these shares are kept in a custody portfolio account with a specialised institution.

Notes to the consolidated financial statements (continued)

28 Provisions

	31 Dec. 2013 KD'000	31 Dec. 2012 KD '000
Pension liability (refer note 33)	**4,044**	6,699
Provision for staff indemnity	**7,768**	7,512
Provision for land-fill expenses	**717**	710
Provision for rental property	**359**	553
	12,888	15,474
Less: Provision for rental property – amount due in less than one year	**(200)**	(335)
	12,688	15,139

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 KD138 thousand (2012: KD 1,939 thousand) for onerous property rental costs and dilapidation obligations.

29 Accounts payable and other liabilities

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Financial liabilities		
Trade payables	**18,128**	15,846
Accrued interest	**3,220**	1,220
Dividend payable	**1,263**	1,282
Leasing creditors - amount due in less than one year	**126**	154
Provision for rental property – amount due in less than one year	**200**	335
National labour support tax	**4,755**	4,608
Kuwait Foundation for the Advancement of Sciences and Zakat	**1,154**	838
Other accruals	**5,537**	5,085
Due to associates (refer note 36)	**279**	9,667
Due to other related parties (refer note 36)	**1,698**	448
Amounts payable to non controlling interest due to capital reduction of one of the local subsidiary	**1,366**	1,315
Other liabilities	**6,595**	8,398
	44,321	49,196
Non-financial liabilities		
Other creditors	**3,312**	1,050
Accruals	**765**	440
	4,077	1,490
	48,398	50,686

Notes to the consolidated financial statements (continued)

30 Short-term borrowings

Currency	Effective Interest rate	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Conventional loans			
Kuwaiti Dinars	4.5% - 6%	23,335	62,949
US Dollars	1% - 5%	46,262	71,444
Sterling	2% - 3.5%	282	9,968
Jordan Dinars	3.9% - 5.9%	-	96
		69,879	144,457
Long term borrowings due within one year		68,318	77,937
		138,197	222,394
Islamic financing arrangements			
Murabaha/wakala/Ijara payables	3% - 6.5%	34,415	29,529
Long term Islamic financing arrangements due within one year		27,763	4,400
		62,178	33,929
Total		200,375	256,323

a. Islamic financing arrangements include Ijara payables of KD7,183 thousand (2012: KD2,873 thousand) which is secured against investment properties of local subsidiaries (refer note 18).

b. As of 31 December 2013, one of the local subsidiaries have a unutilised facility from a local bank which is secured against local investments with a fair value of KD8,216 thousand (2012 : KD10,353 thousand). The facility is available to the subsidiary to utilise when required.

31 Cash and cash equivalents

	Effective interest/profit rate %	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Short term deposits	1.5%	2,061	6,129
Bank balance and cash	1.5%	32,253	57,072
Due to banks	5%-6%	(23,074)	(17,897)
		11,240	45,304
Less: Blocked balances		(1,424)	(7,696)
Cash and cash equivalents for the purpose of consolidated statement of cash flow		9,816	37,608

32 Dividend distribution

Subject to the requisite consent of the relevant authorities and approval from the general assembly, the Parent Company's Board of Directors propose 5% bonus shares on outstanding shares as at 31 December 2013 (2012: Nil) and not to distribute any cash dividend (2012: Nil).

Notes to the consolidated financial statements (continued)

33 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.

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 annually which has been agreed with the pension trustee in line with actuarial advice and aims to eliminate the deficit within an acceptable period of time.

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.

Notes to the consolidated financial statements (continued)

33 Defined benefit pensions schemes (continued)

Effect of the Schemes on the Group's future cash flows (continued)
The following assumptions have been used in calculating the liabilities and expenses incurred:

	31 Dec. 2013	31 Dec. 2012
Discount rate at 31 December	4.35%	4.2%
Inflation assumption (RPI)	3.3%	2.55%
Revaluation in deferment (CPI)	2.3%	2.25%
Expected return on plan assets	4.35%	4.2%
Future salary increases	N/A	N/A
Future pension increases	3.3%	2.55%
Mortality after retirement	SAPS (SINA) tables with medium cohort year of birth projections and minimum of 1.25% (2012: 1%) per annum improvement.	

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

	31 Dec. 2013	31 Dec. 2012
Male currently aged 45	89.2	89.1
Female currently aged 45	91.8	91.7
Male currently aged 65	87.4	87.3
Female currently aged 65	89.9	89.7

The average of the weighted average duration of the liabilities of each of the schemes is 17 years (2012: 18 years).

Consolidated statement of profit or loss

	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Interest cost	(1,109)	(1,413)
Expected return on assets	870	1,157
Settlement on the disposal of subsidiary	2,217	1,307
Accrued expenses	(23)	(132)
Net annual charge included in general and administrative expenses	1,955	919

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

Consolidated statement of financial position

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Brought forward liability	6,699	5,535
Consolidated statement of profit or loss (net)	(1,955)	(919)
Contributions	(800)	(845)
Actuarial (losses)/gain	(12)	2,719
Foreign Exchange adjustments	112	209
Carried forward liability	4,044	6,699

Notes to the consolidated financial statements (continued)

33 Defined benefit pensions schemes (continued)

Reconciliation of consolidated statement of financial position liability

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Present value of obligations	21,948	28,731
Fair value of plan assets	(18,030)	(22,175)
Net plan deficit	3,918	6,556
Unrecognised actuarial losses	126	143
Net liability recognised in the consolidated statement of financial position	4,044	6,699

Changes in the present value of the defined benefit obligation

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Opening defined benefit obligation	28,731	28,040
Interest cost	1,109	1,413
Actuarial losses	(85)	3,470
Liabilities extinguished on settlement	(6,781)	(3,922)
Accrued expenses	23	131
Benefits paid	(1,422)	(1,307)
Foreign exchange adjustment	373	906
Closing defined benefit obligation	21,948	28,731

Changes in the fair value of the plan assets

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Opening fair value of plan assets	22,175	22,638
Expected return	870	1,157
Actuarial gain	(95)	756
Contributions by employer	800	845
Assets disposed on settlement	(1,422)	(2,616)
Benefits paid	(4,846)	(1,307)
Foreign exchange adjustment	548	702
Closing fair value of plan assets	18,030	22,175

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

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Plan assets:		
Equities	7,650	10,043
Bonds	9,739	11,611
Other assets	641	521
	18,030	22,175

The actual return on the Schemes' assets net of expenses over the period was 3.8% (2012:8.1%).

Notes to the consolidated financial statements (continued)

33 Defined benefit pensions schemes (continued)

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%	(1,624)
Minus 0.5%	1,828
Inflation	
Plus 0.25%	399
Minus 0.25%	(381)
Life expectancy	
Plus 1 year	691
Minus 1 year	(696)

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

34 Discontinued operations

	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
George Wilson Industries Limited	-	2,155
BI Composites Limited	-	603
Diamond H Controls Limited	2,168	(35)
BI Electric (Shenzen) Limited	(344)	(154)
Total profit for the year from discontinued operations	**1,824**	2,569

Diamond H Controls Limited ("DHC")

On 30 October 2013, DHC was put into liquidation and the Group gave up control of the subsidiary. The operating loss of DHC 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. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Sales	-	2
Cost of sales	(38)	70
Gross (loss)/profit	(38)	72
General, administrative and other expenses	(1)	(107)
Loss from discontinued operations before and after tax, and for the year	**(39)**	(35)
Gain on re-measurement and disposal		
Gain before and after tax on disposal	2,207	-
Gain/(loss) for the year from discontinued operations - DHC	2,168	(35)

Notes to the consolidated financial statements (continued)

34 Discontinued operations (continued)

BI Electric (Shenzhen) Limited ("BIE")
On 30 September 2013, BIE, a subsidiary of Diamond Asia Controls Manufacturing (Hong Kong) Limited, was put into liquidation and the Group gave up control of the subsidiary. The operating loss of BIE 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. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Sales	755	941
Cost of sales	(587)	(805)
Gross profit	168	136
Distribution costs	(49)	(140)
General, administrative and other expenses	(413)	(129)
	(294)	(133)
Finance costs	(53)	(21)
Loss from discontinued operations before and after tax, and for the year	(347)	(154)
Gain on remeasurement and disposal		
Gain before and after tax on disposal	3	-
Loss for the year from discontinued operations - DHC	(344)	(154)

35 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)

35 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. 2013 KD '000	31 Dec. 2012 KD '000	**31 Dec. 2013 KD '000**	31 Dec. 2012 KD '000	**31 Dec. 2013 KD '000**	31 Dec. 2012 KD '000	**31 Dec. 2013 KD '000**	31 Dec. 2012 KD '000
Segment revenue	**77,116**	71,641	**45,675**	42,185	**63,926**	64,258	**186,717**	178,084
Less:								
Income from investments							**(48,659)**	(45,980)
Share of result of associates							**(18,398)**	(16,647)
Realised gain on disposal of investment properties							**-**	(60)
Loss of disposal and dilution of associates							**(889)**	407
Change in fair value of investment properties							**(1,891)**	(2,025)
Rent, interest and other income							**(7,279)**	(7,336)
Sales, per consolidated statement of profit or loss							**109,601**	106,443
Segment profit	**40,341**	45,704	**6,636**	8,442	**5,014**	4,300	**51,991**	58,446
Less:								
Finance costs							**(34,841)**	(38,883)
Other unallocated loss							**(862)**	(3,232)
Profit before taxation, other statutory contributions and directors' remuneration, per consolidated statement of profit or loss							**16,288**	16,331
Segment assets	**1,234,452**	1,259,966	**60,541**	54,508	**82,713**	73,576	**1,377,706**	1,388,050
Segment liabilities	**(17,643)**	(26,733)	**(17,001)**	(14,508)	**(26,573)**	(24,736)	**(61,217)**	(65,977)
Segment net assets	**1,216,809**	1,233,233	**43,540**	40,000	**56,140**	48,840	**1,316,489**	1,322,073
Borrowings and due to banks							**(753,081)**	(798,155)
Total equity, per consolidated statement of financial position							**563,408**	523,918

Notes to the consolidated financial statements (continued)

35 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 2013				
Additions to property, plant and equipment	741	12,830	3,272	16,843
Depreciation	471	6,303	2,872	9,646
Impairment in value of available for sale investments	24,706	-	-	24,706
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

Geographical segments

The geographical analysis is as follows;

	Assets		Sales	
	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Kuwait	685,778	715,536	45,675	42,185
Outside Kuwait	691,928	672,514	63,926	64,258
	1,377,706	1,388,050	109,601	106,443

36 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. 2013 KD '000	31 Dec. 2012 KD '000
Transactions and balances included in the consolidated statement of financial position		
Due from related parties (refer note 21)	3,632	6,085
Due to related parties (refer note 29)	1,977	10,115
Long term borrowings - murabaha payable to an associate (refer note 27c)	15,069	15,098

Notes to the consolidated financial statements (continued)

36 Related party transactions (continued)

	Year ended 31 Dec. 2013 KD '000	Year ended 31 Dec. 2012 KD '000
Transaction included in the consolidated statement of profit or loss		
Realised gain on sale of available for sale investments – to associate (19f)	847	-
Management and placement fees earned from related parties	156	101
Impairment in value of receivable	-	981
Finance cost - paid to associate	989	415
Purchase of raw materials – from associates	4,192	5,931
Compensation of key management personnel of the Group		
Short term employee benefits and directors' remuneration	3,740	3,453
End of service benefits	121	160
	3,861	3,613

37 Summary of assets and liabilities by category and fair value measurement

37.1 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. 2013 KD '000	31 Dec. 2012 KD '000
Financial assets:		
Loans and receivables (at amortised cost):		
• Accounts receivable and other financial assets (refer note 21)	63,602	57,334
• Murabaha and wakala investments	4,500	11,293
• Short term deposits	2,061	6,129
• Bank balance and cash	32,253	57,072
	102,416	131,828
Assets at fair value through profit or loss:		
• Investments at fair value through profit or loss (refer note 23)		
- Held for trading	38,113	32,381
- Designated on initial recognition	27,086	29,611
	65,199	61,992
Available for sale investments (refer note 19)		
- At fair value	688,696	698,659
- At cost / cost less impairment	60,547	79,283
	749,243	777,942
Total financial assets	916,858	971,762
Financial liabilities:		
At amortised cost		
• Long term borrowings	529,632	523,935
• Leasing creditors	131	152
• Accounts payable and other financial liabilities (refer note 29)	44,321	49,196
• Short term borrowings	200,375	256,323
• Due to banks	23,074	17,897
Total financial liabilities	797,533	847,503

Notes to the consolidated financial statements (continued)

37 Summary of assets and liabilities by category (continued)

37.2 Fair value measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments at fair value though profit or loss and available for sale investments (excluding certain available for sale investments which are carried at cost/cost less impairment for reasons specified in Note 19 to the consolidated financial statements) are carried at fair value and measurement details are disclosed in note 37.3 to the consolidated financial statements. In the opinion of the group's management, except for certain long term borrowing (refer note 27), the carrying amounts of all other financial assets and liabilities which are at amortised costs is considered a reasonable approximation of their fair values.

The Group also measures non-financial asset such as investment properties at fair value at each annual reporting date (refer 37.4).

37.3 Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- 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 (that is, unobservable inputs).

The level within which the 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 on a recurring basis in the statement of consolidated financial position are grouped into the fair value hierarchy as follows;

At 31 December 2013

	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	c	-	-	54,610	54,610
Other managed funds	c	-	8,942	82,355	91,297
-Unquoted equity participations	d	-	-	126,496	126,496
-Quoted shares	a	416,293	-	-	416,293
Investment at fair value through profit or loss					
-Quoted shares	a	37,837	-	-	37,837
- Quoted debt instruments	a	276	-	-	276
-Local funds	b	-	11,030	-	11,030
-International managed portfolios and funds	e	-	-	16,056	16,056
Total assets		454,406	19,972	279,517	753,895

Notes to the consolidated financial statements (continued)

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

37.3 Fair value hierarchy (continued)

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	c	-	-	75,410	75,410
Other managed funds	c	-	9,449	83,690	93,139
-Unquoted equity participations	d	-	-	145,032	145,032
-Quoted shares	a	385,078	-	-	385,078
Investment at fair value through profit or loss					
-Quoted shares	a	29,566	-	-	29,566
- Quoted debt instruments	a	2,815	-	-	2,815
-Local funds	b	-	14,426	-	14,426
-International managed portfolios and funds	e	-	-	15,185	15,185
Total assets		417,459	23,875	319,317	760,651

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

Measurement at fair value

The group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations, where required. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

The methods and valuation techniques used for the purpose of measuring fair value, which are unchanged compared to the previous reporting period, are as follows:

Financial instruments in level 1

a) Quoted shares & debt instruments (level 1)

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.

Financial instruments in level 2 & 3

b) Local funds (level 2)

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.

c) Foreign funds (level 2)

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)

37 Summary of assets and liabilities by category (continued)

37.3 Fair value hierarchy (continued)

Other managed portfolios (level 3)
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.

d) Unquoted equity participations (level 3)
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.

e) International managed portfolios and funds (level 3)
The underlying investments of international managed portfolios and funds represent quoted and unquoted securities. They are valued based on fund managers' report.

Level 3 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 data. The financial instruments within this level can be reconciled from beginning to ending balances as follows:

	31 Dec. 2013 KD'000	31 Dec. 2012 KD'000
Opening balance	319,317	305,918
Net change in fair value recognised in other comprehensive income	(1,143)	17,309
Impairment recognised in profit or loss	(8,748)	(6,039)
Net change in fair value recognised in profit or loss	2,115	1,014
Net disposals during the year	(33,529)	(15,749)
Reclassified from carried at cost to fair valued investments	1,505	16,864
Closing balance	279,517	319,317

Notes to the consolidated financial statements (continued)

37 Summary of assets and liabilities by category (continued)

37.3 Fair value hierarchy (continued)

The following table provides information about the sensitivity of the fair values measurement to changes in the most significant unobservable inputs:

Financial asset	Valuation technique	Significant unobservable input	Range	Sensitivity of the fair value measurement to the input
Unquoted Equity participations	DCF Method	Long term growth rate for cash flows for subsequent years	3% - 4%	Higher the growth rate, higher the value
		WACC	10.6% - 17%	Higher the WACC, lower the value
		Discount for lack of marketability	10% - 15%	Higher the discount rate, lower the value
Private equity and direct equity funds	NAV reported by investment manager	Fair market value of the underlying assets	N/A	Higher the FMV of the assets, higher the value
Other managed portfolios	NAV reported by investment manager	Fair market value of the underlying assets	N/A	Higher the FMV of the assets, higher the value

The impact on profit or loss and other comprehensive income would be immaterial if the relevant risk variable used to fair value the level 3 investments were changed by 5%.

Discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account these premiums and discounts when pricing the investments.

In case of AFS assets, the impairment charge in the profit or loss would depend on whether the decline is significant or prolonged. An increase in the fair value would only impact equity (through OCI) and, would not have an effect on profit or loss.

37.4 Fair value measurement of non-financial assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis at 31 December 2013:

	Level 1 KD'000	Level 2 KD'000	Level 3 KD'000	Total KD'000
Investment property				
- Lands and buildings in Kuwait	-	-	34,777	34,777
- Lands and buildings in Saudi Arabia	-	-	5,925	5,925
- Land in Jordan	-	-	400	400
- Lands in Kuwait	-	-	8,841	8,841
	-	-	49,943	49,943

Notes to the consolidated financial statements (continued)

37 Summary of assets and liabilities by category (continued)

37.4 Fair value measurement of non-financial assets (continued)

The above buildings represent rental properties on freehold land categorized as "Investment Lands" (i.e land which can be used to construct multiple residential unit buildings, apartments, villas, Duplex and Studios), in Kuwait, Jordan and Saudi Arabia. The freehold land above also represents land categorized as investment lands. The fair value of the investment property has been determined based on valuations obtained from two independent valuers, who are specialised in valuing these types of investment properties. The significant inputs and assumptions are developed in close consultation with management. One of these valuers is a local bank (for local investment properties) who has valued the investment properties using primarily two methods, one of which is the Yield Method and other being a combination of the market comparison approach for the land and cost minus depreciation approach for the buildings. The other valuer who is a local reputable valuer has also valued the investment properties primarily by using a combination of the methods noted above. When the market comparison approach is used adjustments have been incorporated for factors specific to the land in question, including plot size, location and current use. For the valuation purpose, the Company has selected the lower value of the two valuations (2012: lower of two valuations). Further information regarding the level 3 fair value measurements is set out in the table below:

Description	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Land and buildings in Kuwait and Saudi Arabia (rental properties)	Yield method and Market comparison approach for land & cost less depreciation for buildings	Estimated marker price for land (per sqm)	KD1,074– KD9,472	The higher the price per square meter, the higher the fair value
		Construction cost (per sqm)	KD40-KD244	The higher the construction cost per square meter, the higher the fair value
		Average monthly rent (per sqm)	KD3 – KD105	The higher the rent per square meter, the higher the fair value
		Yield rate	4.8% to 7.2%	The higher the yield rate, the higher the value
		Vacancy rate	10%	The higher the vacancy rate the lower the fair value
Freehold land Kuwait and Jordan	Market comparison approach	Estimated market price for land (per sqm)	KD1,254 to KD6,588	The higher the price per square meter, the higher the fair value

Level 3 Fair value measurements

The Group measurement of investment properties classified in level 3 uses valuation techniques inputs that are not based on observable market data. The investment properties within this level can be reconciled from beginning to ending balances as follows;

31 December 2013	Investment properties Total KD'000
Opening balance	25,259
Purchases	22,793
Total gains for the year included in profit or loss for assets held at the end of the reporting period:	
-Changes in fair value recognised in profit or loss	1,891
Closing balance	49,943

Notes to the consolidated financial statements (continued)

38 Risk management objectives and policies

The group's financial liabilities comprise due to banks, short term and long term borrowings, 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.

38.1 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. 2013 *Equivalent* KD '000	31 Dec. 2012 *Equivalent* KD '000
US Dollars	**(91,115)**	(129,198)
Saudi Riyals	**15,958**	25,882
GBP	**(14,947)**	(11,249)

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 for the year. There is no impact on the Group's other comprehensive income.

Notes to the consolidated financial statements (continued)

38 Risk management objectives and policies (continued)

38.1 Market risk (continued)

a) Foreign currency risk (continued)

	Profit increase/ (decrease)	
	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
US Dollars	**4,556**	6,460
Saudi Riyals	**(798)**	(1,294)
GBP	**747**	562
	4,505	5,728

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 for the year, and the balances shown above would be negative for US Dollars and GBP and positive for Saudi Riyals (2012: negative for US Dollars, GBP and positive for Saudi Riyals).

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 31), short and long term borrowings (refer note 30 and 27) 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 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. 2013 KD '000	31 Dec. 2012 KD '000	**31 Dec. 2013 KD '000**	31 Dec. 2012 KD '000
Effect on profit for the year	**(1,786)**	(1,809)	**5,357**	5,427

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".

Notes to the consolidated financial statements (continued)

38 Risk management objectives and policies (continued)

38.1 Market risk (continued)

c) Equity price risk (continued)

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:

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

	Profit for the year		Other comprehensive income	
	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000	**31 Dec. 2013 KD '000**	31 Dec. 2012 KD '000
Investments at fair value through profit or loss	**4,914**	4,681	**-**	-
Available for sale investments	**2,568***	7,602*	**40,441**	30,906
	7,482	12,283	**40,441**	30,906

* Had equity prices been higher by 10% the impairment loss which was recognised in the consolidated statement of profit or loss would be reduced and consequently the profit for the year 2013 would be higher and the loss for the year 2012 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.

38.2 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. 2013 KD '000	31 Dec. 2012 KD '000
Available for sale investments	**749,243**	777,942
Accounts receivable and other assets (refer note 21)	**63,602**	57,334
Murabaha and wakala investments	**4,500**	11,293
Investments at fair value through profit or loss	**65,199**	61,992
Short term deposits	**2,061**	6,129
Bank balances	**32,253**	57,072
	916,858	971,762

Notes to the consolidated financial statements (continued)

38 Risk management objectives and policies (continued)

38.2 Credit risk (continued)

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.

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 38.3.

38.3 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 2013						
Geographic region:						
Available for sale investments	**215,986**	**327,206**	**82,486**	**24,445**	**99,120**	**749,243**
Accounts receivable and other assets	**40,163**	**7,117**	**1,594**	**14,324**	**404**	**63,602**
Investments at fair value through profit or loss	**37,416**	**9,328**	**1,903**	**14,809**	**1,743**	**65,199**
Murabaha and wakala investments	**4,500**	**-**	**-**	**-**	**-**	**4,500**
Short-term deposits	**1,919**	**-**	**-**	**142**	**-**	**2,061**
Bank balances and cash	**22,721**	**4,145**	**211**	**3,702**	**1,474**	**32,253**
	322,705	**347,796**	**86,194**	**57,422**	**102,741**	**916,858**
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 investment	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

Notes to the consolidated financial statements (continued)

38 Risk management objectives and policies (continued)

38.4 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.

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 2013					
Financial liabilities (undiscounted)					
Long-term borrowings	-	3,940	10,931	593,327	608,198
Leasing creditors	-	-	-	172	172
Accounts payable and other liabilities	14,743	15,443	14,135	-	44,321
Short-term borrowings	33,879	63,137	107,410	-	204,426
Due to banks	23,074	-	-	-	23,074
	71,696	82,520	132,476	593,499	880,191
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	31,406	10,212	-	49,196
Short-term borrowings	29,153	58,239	178,001	-	265,393
Due to banks	17,897	-	-	-	17,897
	54,628	93,864	200,498	583,067	932,057

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.

39 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 2012 and 2013.

40 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.

Notes to the consolidated financial statements (continued)

40 Capital risk management (continued)

The capital structure for the group consists of the following:

	31 Dec. 2013 KD '000	31 Dec. 2012 KD '000
Long term borrowings (refer note 27)	**529,632**	523,935
Short term borrowings (refer note 30)	**200,375**	256,323
Due to banks	**23,074**	17,897
	753,081	798,155
Less :		
Murabaha and wakala investments	**(4,500)**	(11,293)
Short - term deposits	**(2,061)**	(6,129)
Bank balances and cash	**(32,253)**	(57,072)
Net debt	**714,267**	723,661
Total equity	**563,408**	523,918

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. 2013 %	31 Dec. 2012 %
Net debt to equity ratio	**127**	138

41 Contingent liabilities

At 31 December 2013, the group had contingent liabilities in respect of outstanding bank guarantees amounting to KD12,795 thousand (2012: KD11,858 thousand).

42 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 2013 amounted to KD6,804 thousand (2012: KD26,996 thousand) of which assets managed on behalf of related parties amounted to KD4,234 thousand (2012: KD8,444 thousand).

43 Capital commitments

At the reporting date the group had commitments for the purchase of investments and the acquisition of property, plant and equipment totalling KD25,438 thousand (2012: KD28,219 thousand).

At the reporting date, the group had commitment to pay lease rentals amounting to KD5,100 thousand (2012: KD4,917 thousand).

44 Comparative information

The comparative consolidated statement of profit or loss 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 34).

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.