

3. Significant accounting policies (*Continued*)

A financial instrument is recognized if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Employees' end of service gratuities

Provision is made for employees' end of service gratuities on the basis prescribed in the UAE Labour Law, for the accumulated period of service at the date of statement of financial position.

Effective 1 January 2003, the Government of Dubai has joined Federal Labour Law No.7 of 1999 for pension and social security. Under this law, employers at the option of the employee are required to contribute 15% of the 'contribution calculation salary' of those employees who are UAE national to the scheme. These employees are also required to contribute 5% of the 'contribution calculation salary' to the scheme. The UAE national's employed by the Company have not opted for this scheme and hence no expense is incurred by the Company on this scheme.

Provisions

Provisions are recognised in the statement of financial position when the Establishment has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The Company's financial liabilities consist of trade and other payables, bank overdraft and due to related parties. The trade and other payables and due to related parties are stated at cost and bank overdrafts are recorded at the proceeds received less repayments. Other financial liabilities are initially measured at fair value, net of transaction costs. The subsequent measurement is at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis.

Revenue recognition

Revenue from the sales of goods is recognised net of discounts, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount is measured reliably.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established. Interest revenue is accrued on a time basis. Rental income from investment properties is recognised on a straight line basis over the term of the relevant lease.

Leasing

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

3. Significant accounting policies (*Continued*)

Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses relating to transactions with other components of the same entity, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Profit or loss attributable to ordinary shareholders will be adjusted for any after tax amounts of preference dividends, differences arising on the settlement of preference shares, and other similar effects of preference shares classified as equity. Diluted EPS is calculated by dividing profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares. Potential ordinary shares be treated as dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

Foreign currencies

Transactions in foreign currencies during the year are converted into AED at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated to AED at the rates of exchange ruling at the date of statement of financial position. All gains and losses on exchange are taken to the statement of comprehensive income.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash, bank balances, bank overdrafts and fixed deposits free of encumbrance with maturity periods of three months or less from the date of deposit.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Key sources of estimation uncertainty

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

4. Critical accounting judgments and key sources of estimation uncertainty (*Continued*)

Estimated useful life of property, plant and equipment

Property, plant and equipment is depreciated over its estimated useful life, which is based on estimates for expected usage of the asset and expected physical wear and tear which are dependent on operational factors. Management has not considered any residual value or any adjustments for the remaining estimated useful life based on the internal review carried out.

Impairment of property, plant and equipment

The Company reviews its property, plant and equipment to assess impairment, if there is an indication of impairment. In determining whether impairment losses should be recorded in the statement of comprehensive income, the Company makes judgement as to whether there is any observable data indicating that there is a reduction in the carrying value of property, plant and equipment. Accordingly, provision for impairment is made when there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the carrying value of property, plant and equipment.

Valuation of investment properties

The Company carries its investment properties under the cost model. Note 6 contain information about the valuation methodology adopted by the Company for the valuation of investment properties. Should the significant assumptions change, the fair value of investment properties could significantly impact the statement of comprehensive income and statement of financial position of the Company in the future.

Impairment losses on available for sale investments

The Company determines that available for sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluates factors such as change in market rate of the equity instruments since the purchase date of such instrument, the market scenario and the financial performance of the issuer.

Obsolete Inventories

Inventories are stated at the lower of cost and net realisable value. Adjustments have been made to reduce the cost of inventory to its realisable value, if required, for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, product pricing and quality issues. Based on the above factors, the Company has arrived at certain percentages for allowance for slow moving and obsolete inventories. Revisions to these adjustments would be required if these factors differ from the estimates.

Impairment losses on trade receivables

The Company reviews its receivables to assess impairment at least on an annual basis. The Company's credit risk is primarily attributable to its trade receivables and amounts due from related parties. In determining whether impairment losses should be recorded in the statement of comprehensive income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

5. Property, plant and equipment

Movements in property, plant and equipment are given on page 31.

Some of the buildings with a net book value of AED Nil (2009: AED Nil) are situated on plots of land obtained under operating lease arrangements which are renewable annually. The Company's Directors are of the opinion that the leases are renewable and the land will be available to the Company in the foreseeable future.

Capital work in progress represents two projects undertaken by the Company for the construction of Beta Mill, Slag Flash Dryer and Conversion of Kiln By Pass ESP BAG. The total estimated cost of the projects is AED 29.5 million.

6. Investment properties

Investment properties represent land and villas constructed on those lands held for rental purpose and for capital appreciation.

Movement in investment properties is as follows:

	Land AED'000	Villas AED'000	Total AED'000
Cost			
At January 1, 2009	2,924	16,575	19,499
At December 31, 2009	2,924	16,575	19,499
At December 31, 2010	2,924	16,575	19,499
Depreciation			
At January 1, 2009	-	16,575	16,575
At December 31, 2009	-	16,575	16,575
At December 31, 2010	-	16,575	16,575
Net book value			
At December 31, 2010	2,924	-	2,924
At December 31, 2009	2,924	-	2,924

The fair market value of investment properties, including land, is estimated to be in the range of AED 45 million to AED 50 million (2009: AED 45 million to 50 million) as per the internal valuation carried out by the management in the year 2008. The valuation was based on an assessment of the market prices for similar properties and on the basis of future rentals.

6. Investment properties (Continued)

Land forming part of the investment properties is not depreciated.

Summary of income and expenses from investment properties generating rental income is as follows:

	2010 AED'000	2009 AED'000
Rental income	3,696	3,936
Direct operating expenses	341	358

7. Investment in marketable securities

	2010 AED'000	2009 AED'000
Non current investments	1,402,141	1,412,157
Current investments	1,481	2,692
	<u>1,403,622</u>	<u>1,414,849</u>

Non current investments represents available for sale investments in securities which are intended to be held for more than one year from the date of statement of financial position. The Company's current investments comprise investments in quoted marketable equity securities which are held as available for sale investments.

Movement in available for sale investments at fair value are as follows:

	2010 AED'000	2009 AED'000
Opening balance	1,414,849	2,142,022
Additions	291,532	305,812
Disposals/redeemed	(335,738)	(314,684)
Reclassification adjustments on disposal of investments	(20)	4,098
Fair value changes	32,999	(722,399)
	<u>1,403,622</u>	<u>1,414,849</u>

7. Investment in marketable securities (Continued)

During the year, the Company has recognised a fair value gain of AED 32.99 million (2009: AED 745.99 million (fair value loss)) adjusted by impairment loss, reclassified from equity to statement of comprehensive income amounting to AED Nil (2009: AED 23.59 million), for investments not yet derecognised.

At the date of statement of financial position, investments amounting to AED 20 million (2009: AED 16 million) classified under non current investments are stated at cost. In the opinion of the management, the fair value of these investments is not significantly different from their carrying amounts.

At the date of statement of financial position, Investments in marketable securities amounting to AED 318 million (2009: AED 258 million) are held in the personal name of one of the Company's Director for the beneficial interest of the Company.

Investments amounting to AED 124 million (2008: AED 113 million) are held under lien against various un-drawn bank facilities.

Sensitivity analysis on market risk arising as a result of changes in the market price of investments and foreign currency risk arising as a result of fluctuation in the foreign exchange rates is explained in Note 28 to the financial instruments.

Movements at cost in available for sale investments are as follows:

	2010 AED'000	2009 AED'000
Opening balance	867,720	876,592
Additions	291,532	305,812
Disposals	(335,738)	(314,684)
	<u>823,514</u>	<u>867,720</u>

7. Investment in marketable securities (Continued)

Break up of profit/(loss) on disposal of available for sale investment is as follows:

	2010 AED'000	2009 AED'000
Reclassification adjustments on disposal of investments	20	(4,098)
Realised gain on disposal attributable to difference between selling price and carrying amount of investments	3,097	2,505
	<u>3,117</u>	<u>(1,593)</u>

The geographical distribution of available for sale investments is as follows:

	2010 AED'000	2009 AED'000
United Arab Emirates	1,002,826	1,108,042
Saudi Arabia	220,858	165,165
Other countries	179,938	141,642
	<u>1,403,622</u>	<u>1,414,849</u>

8. Investment in associate

Investment in associate company represents 22.74% (2009:20%) share in Berber Cement Company Ltd, a limited liability company incorporated in the Republic of Sudan. The principal activity of the associate is to manufacture and sell cement. The Company's share in net assets of the associate has been equity accounted as at December 31, 2010 based on the reviewed (unaudited) financial statements of the associate as at June 30, 2010.

The following table summarises the investment in Berber Cement Company Ltd:

	2010 AED'000	2009 AED'000
Beginning balance	48,660	52,758
Increase in share of investment	21,670	-
Share of profit/(loss) in associate	3,644	(4,098)
	<u>73,974</u>	<u>48,660</u>

Notes to the financial statements for the year ended December 31, 2010 (Continued)

8. Investment in associate (Continued)

The following table summarises the financial information of the Company's investment in Berber Cement Company Ltd:

	2010 AED'000	2009 AED'000
Share of net assets of associate (22.74%)		
Current assets	51,488	15,673
Non current assets	180,185	133,060
Current liabilities	(59,962)	(15,378)
Non current liabilities	(97,737)	(84,695)
Net assets	<u>73,974</u>	<u>48,660</u>

	2010 AED'000	2009 AED'000
Share of associate's revenue and profit/(loss) (22.74%)		
Revenue	10,157	185
Net profit/ (loss)	<u>3,644</u>	<u>(4,098)</u>

9. Inventories

	2010 AED'000	2009 AED'000
Raw materials	20,500	24,198
Work in progress	43,220	21,632
Finished goods	3,453	3,646
Consumables and spare parts	23,883	25,824
Provision for obsolescence	(7,122)	(7,122)
	<u>83,934</u>	<u>68,178</u>

Inventories are stated net of allowance for slow moving and obsolete items.

10. Trade and other receivables

	2010 AED'000	2009 AED'000
Trade receivables	86,554	107,471
Allowance for doubtful debts	(6,000)	(6,000)
Trade receivables (net)	80,554	101,471
Advances	2,148	21,000
Advance towards investment	20,939	-
Prepayments and other receivables	887	1,904
	104,528	124,375

The credit period offered by the Company differs for each customer. Ranges of credit period offered for its customers are 0 days, 30 days, 45 days, 60 days, 75 days, 90 days or 120 days from the date of invoice. No interest is charged on trade receivables which are past due.

The Company has obtained bank guarantees for some of its customers which act as a collateral security for the amount receivable from those customers and post dated cheques are obtained for the balance amount receivable in excess of the bank guarantee. The amount of trade receivables that is secured against bank guarantees amounts to AED 54 million (2009: AED 81 million) and the fair value of collateral security is determined at AED 93 million (2009: AED 128 million). Trade receivables which are not secured against bank guarantee amounts to AED 32.5 million (2009: AED 26 million).

There are 9 customers who represent 74% of the total balance of trade receivables. AED 36 million of the trade receivables is neither past due nor impaired. The Company has provided for AED 6 million for receivables amounting to AED 51 million which are past due at the reporting date based on its past experience.

Ageing of trade receivables is as under:

	2010 AED'000	2009 AED'000
Not past due	35,583	46,110
Past due from 1-30 days	12,037	18,955
Past due from 31-60 days	9,569	16,540
Past due from 61-90 days	6,279	9,488
Past due from 91-120 days	4,936	11,597
Past due from 121 days	18,150	4,781
	86,554	107,471

The Company's exposure to credit risk and impairment losses related to loans and receivables is disclosed in Note 28 on financial instruments.

11. Related party disclosures

Related parties include the ultimate parent company, the shareholders, key management personnel, associates, joint ventures and any businesses which are controlled directly or indirectly by the Company or over which they exercise significant management influence. The balances due to/from such parties, which have been disclosed separately in the financial statements, are unsecured, interest-free and are repayable on demand.

The significant related party transactions during the year are as follows:

	2010 AED'000	2009 AED'000
With Associate:		
- Interest income	1,515	-
With other related parties:		
- Sale of cement	28,681	58,032
- Purchase of materials and services	8,879	13,821
With Directors:		
- Advance paid to a Director	-	4,000
With Key Management Personnel:		
- Salaries and other short term benefits	3,227	3,417
- End of service benefits charged to income statement	189	189
- End of service benefits provided at the period end	5,544	5,338
- Directors' fee (as an appropriation from retained earnings)	1,750	1,750

Related party balances are as under:

	2010 AED'000	2009 AED'000
Payable:		
- To other related parties	2,410	7,098
	<u>2,410</u>	<u>7,098</u>
	<u>2,410</u>	<u>7,098</u>
Receivable:		
- From Associate	6,423	28,742
- From other related parties	32,516	33,644
- From Directors	10,342	12,890
	<u>49,281</u>	<u>75,276</u>
	<u>49,281</u>	<u>75,276</u>

Notes to the financial statements for the year ended December 31, 2010 (Continued)

12. Bank balances and cash

	2010 AED'000	2009 AED'000
Cash at hand	532	627
Current accounts with banks	10,877	64,668
Fixed deposit maturing within 3 months	-	39,766
	<u>11,409</u>	<u>105,061</u>

13. Bank overdraft

Bank overdraft is secured by investments under lien.

14. Trade and other payables

	2010 AED'000	2009 AED'000
Trade payables	25,621	24,603
Derivative financial instruments	38,035	109,489
Other accruals and payables	15,813	17,053
Advances	227	238
Directors' fees	1,750	1,750
Dividend payable	20,279	4,726
	<u>101,725</u>	<u>157,859</u>

The Company has financial risk management policies in place to ensure that payables are paid within the credit time frame.

Please refer to note 28 for further information on derivative financial instruments.

15. Provision for employees' end of service gratuities

	2010 AED'000	2009 AED'000
Opening balance	27,967	28,185
Provision created for the year	1,698	1,621
Payments made during the year	(2,843)	(1,839)
Closing balance	<u>26,822</u>	<u>27,967</u>