

Consolidated financial statements and independent auditors' report
Gulf Cable and Electrical Industries Company – KPSC
and Subsidiaries

Kuwait

31 December 2014

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Independent auditors' report

To the Shareholders of
Gulf Cable and Electrical Industries Company – KPSC
Kuwait

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Gulf Cable and Electrical Industries Company – Kuwaiti Public Shareholding Company (“parent Company”) and its Subsidiary (“the group”) which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management of the Parent Company 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 Gulf Cable and Electrical Industries Company and its Subsidiary as at 31 December 2014, 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 its executive regulations 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 and its executive regulations and by 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 group.

We further report that, during the course of our audit and to the best of our knowledge and belief, we have not become aware of any material violations of the provisions of Law 7 of 2010, as amended, relating to the Capital Markets Authority and its related regulations during the year ended 31 December 2014.



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

Kuwait
16 March 2015



Hend Abdulla Al Surayea
(Licence No. 141-A)
Hend Abdulla Al Surayea & Co.
Member of MAZARS

Consolidated statement of profit or loss

	Notes	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Revenue			
Sales		112,408,337	97,872,275
Cost of sales		(98,023,705)	(88,755,426)
Gross profit		14,384,632	9,116,849
Dividend income		6,383,049	7,951,495
Other investment income		21,944	147,749
(Loss)/gain on sale of available for sale of investments		(60,026)	1,192,429
Interest income		4,810	5,584
Other revenue		71,888	29,136
Foreign currency exchange gain		489,357	834,582
		21,295,654	19,277,824
Expenses and other charges			
General and administrative expenses		(2,723,722)	(3,198,746)
Commercial expenses		(2,554,771)	(2,655,004)
Impairment of available for sale investments	12	(8,668,158)	(687,289)
(Provision)/reversal of provision for doubtful debts		(158,485)	276,255
Provision for obsolete and slow moving inventories		(270,593)	(20,601)
Finance costs		(2,015,561)	(2,425,656)
		(16,391,290)	(8,711,041)
Profit for the year before income tax		4,904,364	10,566,783
Income tax for overseas subsidiary		(6,779)	(10,954)
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Directors' remuneration		4,897,585	10,555,829
Provision for contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)		(48,729)	(105,181)
Provision for National Labour Support Tax (NLST)		-	(108,174)
Provision for Contribution to Zakat		-	(29,270)
Provision for directors' remuneration		(275,000)	(310,000)
Profit for the year	8	4,573,856	10,003,204
Profit for the year attributable to:			
Owners of the parent company		4,549,199	9,965,482
Non-controlling interests		24,657	37,722
Profit for the year		4,573,856	10,003,204
Basic and diluted earnings per share attributable to the owners of the parent company	10	22 Fils	47 Fils

The notes set out on pages 9 to 45 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Profit for the year	4,573,856	10,003,204
Other comprehensive income		
<i>Items that will be reclassified subsequently into the consolidated statement of profit or loss:</i>		
Exchange differences arising on translation of foreign operations	351,425	(173)
Available for sale investments:		
- Net change in fair value arising during the year	(24,143,271)	(16,611,421)
- Transferred to consolidated statement of profit or loss on sale	15,117	(133,601)
- Transferred to consolidated statement of profit or loss on impairment	8,668,158	687,289
Total other comprehensive loss	(15,108,571)	(16,057,906)
Total comprehensive loss for the year	(10,534,715)	(6,054,702)
Total comprehensive (loss)/income attributable to:		
Owners of the parent company	(10,578,700)	(6,092,415)
Non-controlling interests	43,985	37,713
	(10,534,715)	(6,054,702)

The notes set out on pages 9 to 45 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Notes	31 Dec. 2014 KD	31 Dec. 2013 KD
Assets			
Non-current assets			
Property, plant and equipment	11	8,472,869	9,152,430
Available for sale investments	12	115,234,507	135,440,233
		123,707,376	144,592,663
Current assets			
Inventories	13	51,813,123	44,984,064
Trade accounts receivable	14	28,810,896	25,602,852
Other receivables and prepayments		1,404,045	627,767
Cash and bank balances	15	3,629,835	10,154,696
		85,657,899	81,369,379
Total assets		209,365,275	225,962,042
Equity and liabilities			
Equity			
Share capital	16	20,993,131	20,993,131
Share premium	17	29,160,075	29,160,075
Legal reserve	18	20,993,131	20,993,131
Voluntary reserve	18	20,993,131	20,993,131
General reserve	18	23,270,944	22,783,650
Other components of equity	19	(17,903,690)	(2,775,791)
Retained earnings		34,076,493	36,312,527
Total equity attributable to the owners of the parent company		131,583,215	148,459,854
Non-controlling interests		539,210	495,225
Total equity		132,122,425	148,955,079
Non-current liabilities			
Provision for employees' end of service benefits		2,487,023	2,145,342
Long term loans	20	7,076,400	19,943,500
		9,563,423	22,088,842
Current liabilities			
Trade accounts payable		3,535,362	3,772,828
Other payables and accruals	23	7,271,218	7,775,845
Current portion of long term loans	20	13,243,350	12,954,640
Short term loans	21	33,020,366	30,276,648
Murabaha payables	22	10,588,754	-
Due to banks	15	20,377	138,160
		67,679,427	54,918,121
Total liabilities		77,242,850	77,006,963
Total equity and liabilities		209,365,275	225,962,042



Bader Naser Al-Kharafi
Chairman

The notes set out on pages 9 to 45 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Equity attributable to the owners of the parent company							Non- controlling interests	Total
	Share capital KD	Share premium KD	Legal reserve KD	Voluntary reserve KD	General reserve KD	Other components of equity (Note 19) KD	Retained earnings KD		
Balance at 1 January 2014	20,993,131	29,160,075	20,993,131	20,993,131	22,783,650	(2,775,791)	36,312,527	495,225	148,955,079
Payment of cash dividends (Note 24)	-	-	-	-	-	-	(6,297,939)	-	(6,297,939)
Transactions with owners	-	-	-	-	-	-	(6,297,939)	-	(6,297,939)
Profit for the year	-	-	-	-	-	-	4,549,199	24,657	4,573,856
Total other comprehensive (loss)/income	-	-	-	-	-	(15,127,899)	-	19,328	(15,108,571)
Total comprehensive (loss)/income for the year	-	-	-	-	-	(15,127,899)	4,549,199	43,985	(10,534,715)
Transfer to general reserve	-	-	-	-	487,294	-	(487,294)	-	-
Balance at 31 December 2014	20,993,131	29,160,075	20,993,131	20,993,131	23,270,944	(17,903,690)	34,076,493	539,210	132,122,425

The notes set out on pages 9 to 45 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

	Equity attributable to the owners of the parent company							Non- controlling interests	Total
	Share capital KD	Share premium KD	Legal reserve KD	Voluntary reserve KD	General reserve KD	Other components of equity (Note 19) KD	Retained earnings KD	Sub-total KD	
Balance at 1 January 2013	20,993,131	29,160,075	20,993,131	20,993,131	21,731,840	13,282,106	32,647,137	159,800,551	457,512 160,258,063
Payment of cash dividends	-	-	-	-	-	-	(5,248,282)	(5,248,282)	- (5,248,282)
Transactions with owners	-	-	-	-	-	-	(5,248,282)	(5,248,282)	- (5,248,282)
Profit for the year	-	-	-	-	-	-	9,965,482	9,965,482	37,722 10,003,204
Total other comprehensive loss	-	-	-	-	-	(16,057,897)	-	(16,057,897)	(9) (16,057,906)
Total comprehensive (loss)/income for the year	-	-	-	-	-	(16,057,897)	9,965,482	(6,092,415)	37,713 (6,054,702)
Transfer to reserves	-	-	-	-	1,051,810	-	(1,051,810)	-	- -
Balance at 31 December 2013	20,993,131	29,160,075	20,993,131	20,993,131	22,783,650	(2,775,791)	36,312,527	148,459,854	495,225 148,955,079

The notes set out on pages 9 to 45 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
OPERATING ACTIVITIES			
Profit for the year		4,573,856	10,003,204
Adjustments:			
Depreciation		1,610,627	1,783,879
Provision for employees' end of service benefits		434,069	355,010
Finance costs		2,015,561	2,425,656
Interest income		(4,810)	(5,584)
Dividend income		(6,383,049)	(7,951,495)
Other investment income		(21,944)	(147,749)
Loss/(gain) on sale of available for sale of investments		60,026	(1,192,429)
Impairment of available for sale investments		8,668,158	687,289
Provision/(reversal of provision) for doubtful debts		158,485	(276,255)
Provision for obsolete and slow moving inventories		270,593	20,601
Foreign exchange loss on non-operating liabilities		1,148,159	36,922
		12,529,731	5,739,049
Changes in operating assets and liabilities:			
Inventories		(7,099,652)	(2,861,538)
Trade accounts receivable		(3,366,529)	(283,509)
Other receivables and prepayments		(771,267)	(179,647)
Trade accounts payable		(237,466)	1,274,221
Other payables and accruals		(743,083)	(574,265)
Employees' end of service benefits paid		(92,388)	(148,519)
Net cash from operating activities		219,346	2,965,792
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(734,712)	(373,332)
Proceeds from sale of property, plant and equipment		-	96,559
Purchase of available for sale investments		(4,767,623)	(15,023,187)
Proceeds from sale of available for sale investments		785,169	11,956,373
Dividend income received		6,383,049	7,951,495
Other investment income received		16,933	147,749
Interest income received		4,810	5,584
Net cash from investing activities		1,687,626	4,761,241
FINANCING ACTIVITIES			
Payment of cash dividend		(6,194,972)	(5,290,750)
Proceeds from term loans		25,011,511	25,220,585
Repayment of term loans		(35,705,108)	(18,467,039)
Receipt of murabaha payables		10,299,520	-
Payment of murabaha payables		-	-
Finance costs paid		(1,880,072)	(2,291,213)
Net cash used in financing activities		(8,469,121)	(828,417)
(Decrease)/increase in cash and cash equivalents		(6,562,149)	6,898,616
Foreign currency adjustment		155,071	(27,291)
Cash and cash equivalents at beginning of the year	15	10,016,536	3,145,211
Cash and cash equivalents at end of the year	15	3,609,458	10,016,536

The notes set out on pages 9 to 45 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 Incorporation and activities

Gulf Cable and Electrical Industries Company – KPSC (“the parent company”) is a registered Kuwaiti Public Shareholding Company, which was established on 15 March 1975. Its shares are listed on the Kuwait Stock Exchange.

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

Objectives for which the company was incorporated:

- 1- Produce all kinds of electrical and telephone cables of various sizes and varieties.
- 2- Produce all kinds of electric and telephone wires of various sizes and varieties.
- 3- Produce the wires necessary for the production of light bulbs.
- 4- Produce light bulbs of all varieties and sizes after obtaining the necessary license from the Public Authority for Industry.
- 5- Manufacture electrical transformers, switches and distribution panels after obtaining the necessary license from the Public Authority for Industry.
- 6- Various industries belonging to power equipment and tools for industrial or household purposes after obtaining the necessary license from the Public Authority for Industry.
- 7- Produce all kinds of aluminum chips and nylon covering rolls of various sizes and varieties after obtaining the necessary license from the Public Authority for Industry.
- 8- Produce copper bars which its used in the production of electrical and telephone cables after obtaining the necessary license from the Public Authority for Industry.
- 9- Trade in all kinds of these products.
- 10- Import machinery, plant, equipment and tools necessary to achieve the company’s objectives.
- 11- Import the raw materials for this industry.
- 12- Invest the surplus funds in investment portfolios in order to serve the company’s objectives.

The company may have interest or participate in any aspect in the entities which practice similar activities or which may assist it in the achievement of its objectives in Kuwait and abroad. The company may also purchase these entities or affiliate them therewith.

The address of the parent company’s registered office is PO Box 1196, Safat 13012, State of Kuwait.

The board of directors approved these consolidated financial statements for issue on 16 March 2015 and are subject to the approval of the general assembly of the shareholders.

2 Basis of preparation

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

The consolidated financial statements have been presented in Kuwaiti Dinars (“KD”), which is the functional and presentation currency of the group.

3 Statement of compliance

These consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

4 Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in previous year except for adoption of new standards, amendments to certain standards and interpretations discussed below.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.1 New and amended standards adopted by the group

A number of new and revised standards are effective for annual periods beginning on or after 1 January 2014. Information on these new standards is presented below:

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IAS 32 Financial Instruments: Presentation - Amendments	1 January 2014
IAS 36 Impairment of Assets- Amendments	1 January 2014
Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014

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 required to be applied retrospectively. The adoption of the amendments did not result into any material impact on the group's consolidated financial statements.

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 adoption of the amendments did not result into any material impact on the group's consolidated financial statements.

The amendments have been applied retrospectively in accordance with their transitional provisions.

Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27

The Amendments define the term 'investment entity', provide supporting guidance and require investment entities to measure investments in the form of controlling interests in another entity at fair value through profit or loss.

The adoption of the amendments did not result into any material impact on the group's consolidated financial statements.

4.2 IASB Standards issued but not yet effective

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

Management anticipates that all of the relevant pronouncements will be adopted in the group's accounting policies for the first period beginning after the effective date of the pronouncements. Information on new standards, amendments and interpretations that are expected to be relevant to the group's consolidated 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 consolidated financial statements.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

<i>Standard or Interpretation</i>	<i>Effective for annual periods beginning</i>
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2017
IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments	1 January 2016
IAS 1 'Disclosure Initiative - Amendments	1 January 2016
IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments	1 January 2016
IAS 27 Equity Method in Separate Financial Statements - Amendments	1 January 2016
IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments	1 January 2016
Annual Improvements to IFRSs 2012–2014 Cycle	1 January 2016
Annual Improvements to IFRSs 2010–2012 Cycle	1 July 2014
Annual Improvements to IFRSs 2011–2013 Cycle	1 July 2014

IFRS 9 Financial Instruments

The IASB has replaced IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) in its entirety with IFRS 9. IFRS 9 (2014) incorporates the final requirements on all three phases of the financial instruments projects: classification and measurement, impairment and hedge accounting.

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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaced IAS 11 Revenues and provides a new control-based revenue recognition model using five-step approach to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

The standard includes important guidance, such as

- Contracts involving the delivery of two or more goods or services – when to account separately for the individual performance obligations in a multiple element arrangement, how to allocate the transaction price, and when to combine contracts.
- Timing – whether revenue is required to be recognized over time or at a single point in time.
- Variable pricing and credit risk – addressing how to treat arrangements with variable or contingent (e.g. performance-based) pricing, and introducing an overall constraint on revenue.
- Time value – when to adjust a contract price for a financing component.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

- specific issues, including –
 - non-cash consideration and asset exchanges
 - contract costs
 - rights of return and other customer options
 - supplier repurchase options
 - warranties
 - principal versus agent
 - licencing
 - breakage
 - non-refundable upfront fees, and
 - consignment and bill-and-hold arrangements.

The group's management have yet to assess the impact of IFRS 15 on these consolidated financial statements.

IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments

The Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations)
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.

These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in an subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.

IAS 1 Disclosure Initiative – Amendments

The Amendments to IAS 1 make the following changes:

- *Materiality*: The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
- *Statement of financial position and statement of profit or loss and other comprehensive income*: The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
- *Notes*: The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets address the following matters:

- a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment
- an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is generally inappropriate except for limited circumstances
- expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

The group's management have yet to assess the impact of these new standards on the group's consolidated financial statements.

IAS 27 Equity Method in Separate Financial Statements - Amendments

The Amendments to IAS 27 Separate Financial Statements permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

The group's management have yet to assess the impact of this new standard on the group's consolidated financial statements.

IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidation Exception - Amendments

The Amendments are aimed at clarifying the following aspects:

- *Exemption from preparing consolidated financial statements.* The amendments confirm that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- *A subsidiary providing services that relate to the parent's investment activities.* A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- *Application of the equity method by a non-investment entity investor to an investment entity investee.* When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- *Disclosures required.* An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

The group's management have yet to assess the impact of these new standards on the group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

4 Changes in accounting policies (continued)

4.2 IASB Standards issued but not yet effective (continued)

Annual Improvements to IFRSs 2012–2014 Cycle

- (i) *Amendments to IFRS 7* - Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements
- (ii) *Amendments to IAS 9* - Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
- (iii) *Amendments to IAS 34* - Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Annual Improvements to IFRSs 2010–2012 Cycle:

- (i) *Amendments to IFRS 3*-Contingent consideration that does not meet the definition of an equity instrument is subsequently measured at each reporting date fair value, with changes recognised in consolidated statement of profit or loss.
- (ii) *Amendments to IFRS 13*- The addition to the Basis for Conclusions confirms the existing measurement treatment of short-term receivables and payables.
- (iii) *Amendments to IFRS 8*- Disclosures are required regarding judgements made by management in aggregating operating segments (i.e. description, economic indicators).

A reconciliation of reportable segments' assets to total entity assets is required if this is regularly provided to the chief operating decision maker.

- (iv) *Amendments to IAS 16 and IAS 38*- When items are revalued, the gross carrying amount is adjusted on a consistent basis to the revaluation of the net carrying amount.
- (v) *Amendments to IAS 24*- Entities that provide key management personnel services to a reporting entity, or the reporting entity's parent, are considered to be related parties of the reporting entity.

Annual Improvements 2011-2013 Cycle

- (i) *Amendments to IFRS 1*-the amendment to the Basis for Conclusions clarifies that an entity preparing its IFRS financial statements in accordance with IFRS 1 is able to use both:
 - IFRSs that are currently effective
 - IFRSs that have been issued but are not yet effective, that permits early adoption

The same version of each IFRS must be applied to all periods presented.

- (ii) *Amendments to IFRS 3*- IFRS 3 is not applied to the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- (iii) *Amendments to IFRS 13*- the scope of the portfolio exemption (IFRS 13.52) includes all items that have offsetting positions in market and/or counterparty credit risk that are recognised and measured in accordance with IAS 39/IFRS 9, irrespective of whether they meet the definition of a financial asset/liability.

The group's management have yet to assess the impact of these annual improvements on the group's consolidated financial statements.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies

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

5.1 Basis of consolidation

The group controls subsidiaries if it is exposed, or has rights, to variable returns from its involvement with the subsidiaries and has the ability to affect those returns through its power over the subsidiaries. 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.

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

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

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

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

Changes in the group's ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent company.

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 consolidated statement of 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.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.2 Business combinations (continued)

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

5.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when payment is made.

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

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

5.3.1 Sale of goods

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

5.3.2 Interest income

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

5.3.3 Dividend income

Dividend income are recognised at the time the right to receive payment is established.

5.4 Operating expenses

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

5.5 Borrowing costs

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

5.6 Taxation

5.6.1 Kuwait Foundation for the Advancement of Sciences (KFAS)

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

5.6.2 National Labour Support Tax (NLST)

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.6 Taxation (continued)

5.6.3 Zakat

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

5.6.4 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.

5.7 Property, plant and equipment

5.7.1 Land

Land held for use in production or administration is stated at cost. As no finite useful life for land can be determined, related carrying amounts are not depreciated.

5.7.2 Buildings, vehicles and other equipment

Buildings, vehicles and other equipment (comprising fittings, furniture and agriculture farm and related facilities) are initially recognised at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the group's management.

Buildings, vehicles other equipment are subsequently measured using the cost model, cost less subsequent depreciation and impairment losses. Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of buildings, vehicles and other equipment. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property, plant and equipment.

The following useful lives are applied:

- Buildings: 20 to 25 years
- Plant and machinery: 10 years
- Vehicles, furniture and equipment: 4 to 10 years
- Agriculture farm and related facilities: 5 to 10 years.

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

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is recognised in the consolidated statement of profit or loss.

5.8 Financial instruments

5.8.1 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.

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.8 Financial instruments (continued)

5.8.1 Recognition, initial measurement and derecognition (continued)

- rights to receive cash flows from the assets have expired;
- the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either:
 - (a) the group has transferred substantially all the risks and rewards of the asset or
 - (b) the group has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

Where the group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the group's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in consolidated statement of profit or loss.

5.8.2 Classification and subsequent measurement of financial assets

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

- loans and receivables
- available-for-sale (AFS) financial assets.

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

• Loans and receivables

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

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

The group categorises loans and receivables into following categories:

Trade account receivables

Trade account receivables 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.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.8 Financial instruments (continued)

5.8.2 Classification and subsequent measurement of financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, together with cash in managed portfolios that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value less due to banks.

• *AFS financial assets*

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

Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Impairment charges are recognised in consolidated statement of 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 consolidated statement of 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 consolidated statement of 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 consolidated statement of profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

5.8.3 Classification and subsequent measurement of financial liabilities

The group's financial liabilities include borrowings, murabaha payables, trade payables, other payables and accruals and derivatives financial instruments.

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

Borrowings

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

Murabaha payables

Murabaha payables represent amount payable on deferred settlement basis for assets purchases under murabaha arrangements. Murabaha payables are stated at the contractual amount payable, less deferred profit payable. Profit payable is expensed on a time apportionment basis taking account of the profit rate attributable and the balance outstanding.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.8 Financial instruments (continued)

5.8.3 Classification and subsequent measurement of financial liabilities (continued)

Trade payables and other liabilities and accruals

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period in the consolidated statement of financial position. The resulting gain or loss is recognised in the consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset while a derivative with a negative fair value is recognised as a financial liability.

Note 31 sets out details of the fair values of the derivative instruments.

5.9 Trade and settlement date accounting

All 'regular way' purchases and sales of financial assets are recognised on the trade date i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

5.10 Offsetting of financial instruments

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

5.11 Amortised cost of financial instruments

This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

5.12 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 30.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.13 Impairment testing of non financial assets

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 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 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.

5.14 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 cost formula.

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

5.15 Equity, reserves and dividend payments

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

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

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

General reserve comprises appropriations of current and prior period profits.

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 Kuwait Dinars.
- fair value reserve – comprises gains and losses relating to available for sale financial assets.

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

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

5.16 Related party transactions

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

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.17 Employees' end of service benefits

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

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

5.18 Foreign currency translation

5.18.1 Functional and presentation currency

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.

5.18.2 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 consolidated statement of profit or loss. Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

5.18.3 Foreign operations

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

On consolidation, assets and liabilities have been translated into KD at the closing rate at the reporting date. 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 consolidated statement of profit or loss and are recognised as part of the gain or loss on disposal.

5.19 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.

Notes to the consolidated financial statements (continued)

5 Significant accounting policies (continued)

5.19 Provisions, contingent assets and contingent liabilities (continued)

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.

5.20 Segment reporting

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

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

6 Significant management judgements and estimation uncertainty

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

6.1 Significant management judgments

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

6.1.1 Classification of financial instruments

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

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

Classification of financial assets as fair value through statement of profit or loss 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 consolidated statement of profit or loss in the management accounts, they are classified as fair value through statement of 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.

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.1 Significant management judgments (continued)

6.1.2 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.

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 available for sale equity investments

The group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires considerable judgment.

6.2.2 Impairment of trade receivables

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

At the financial position date, gross trade accounts receivable were KD31,697,198 (31 December 2013: KD28,324,289), and the provision for doubtful debts was KD2,886,302 (31 December 2013: KD2,721,437). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of profit or loss.

6.2.3 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 in stores were KD50,614,515 (31 December 2013: KD40,228,783), with provision for old and obsolete inventories of KD548,999 (31 December 2013: KD276,021). 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.

6.2.4 Useful lives of depreciable assets

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

Notes to the consolidated financial statements (continued)

6 Significant management judgements and estimation uncertainty (continued)

6.2 Estimates uncertainty (continued)

6.2.5 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 (see note 30).

7 Subsidiary companies

The financial statements of the following subsidiaries were consolidated with the financial statements of the parent company up to 31 December 2014:

Name	Country of Incorporation	Percentage Ownership		Activity
		31 Dec. 2014	31 Dec. 2013	
Gulf Cable and Multi Industries Company – JSC	Jordan	94.5%	94.5%	Manufacture and supply of electrical cables and related products and holding investments.
Hawraa Regional General Trading & Contracting Co. W.L.L	Kuwait	97.3%	-	General Trading and Contracting

7.1 Business combination

During the year, the group acquired 97.3% equity shares in Hawraa Regional General Trading & Contracting Company - W.L.L - Kuwait for a total consideration of KD250,000. The subsidiary has not commenced its activities up to the reporting date of these consolidated financial statements.

The details of acquisition of Hawraa Regional General Trading & Contracting Co. W.L.L at the date of the acquisition was as follows:

Name of subsidiary	Interest acquired %	Total net assets KD	Net assets acquired KD	Purchase consideration KD	Goodwill KD
Hawraa Regional General Trading & Contracting Co. W.L.L	97.3%	250,000	250,000	250,000	-

The fair value of the identifiable assets and liabilities has been determined at the date of acquisition and approximate their carrying values.

Notes to the consolidated financial statements (continued)

7 Subsidiary companies (continued)

7.2 Subsidiary with material non-controlling interests

Summarised financial information for Gulf Cable Multi Industries Company-JSC (Jordan), before intragroup eliminations, is set out below:

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Total assets	24,238,386	25,657,295
Total liabilities	14,434,573	16,653,209
Net equity attributable to the owners of the parent company	9,264,603	8,508,861
Net equity attributable to non-controlling interests	539,210	495,225
	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Revenue	32,552,740	28,298,768
Profit for the year attributable to the owners of the parent company	423,645	648,136
Profit for the year attributable to NCI	24,657	37,722
Profit for the year	448,302	685,858
Total comprehensive income for the year attributable to the owners of the parent company	423,645	648,136
Total comprehensive income for the year attributable to NCI	24,657	37,722
Total comprehensive income for the year	448,302	685,858
	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Net cash from/(used in) operating activities	2,088,675	(3,589,671)
Net cash used in investing activities	(659,643)	(158,820)
Net cash (used in)/from financing activities	(1,932,059)	3,700,133
Net cash outflow	(503,027)	(48,358)

7.3 Interest in unconsolidated (NIC) structured entities

The group has no interests in unconsolidated structured entities.

Notes to the consolidated financial statements (continued)

8 Profit for the year

Profit for the year is stated after charging:

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Staff costs (note 8a)	5,326,238	5,660,992
Depreciation (note 8b)	1,610,627	1,783,879

a. Staff costs for the year have been allocated as follows:

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Cost of sales	3,019,123	3,008,909
General and administrative expenses	1,621,502	2,023,193
Commercial expenses	685,613	628,890
	5,326,238	5,660,992

b. Depreciation for the year has been allocated as follows:

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Cost of sales	1,451,743	1,598,956
General and administrative expenses	154,851	176,825
Commercial expenses	4,033	8,098
	1,610,627	1,783,879

9 Net loss on financial assets

Net loss on financial assets, analysed by category, is as follows:

	Year ended 31 Dec. 2014 KD	Year ended 31 Dec. 2013 KD
Receivables:		
- Bank balances	4,810	5,584
Available for sale investments:		
- Recognised directly in consolidated statement of comprehensive income	(15,459,996)	(16,057,733)
- Recycled from other comprehensive income to consolidated statement of profit or loss:		
• on impairment	(8,668,158)	(687,289)
• on sale	(15,117)	133,601
- Recognised directly in consolidated statement of profit or loss	6,360,084	9,158,072
	(17,778,377)	(7,447,765)
Distributed as follows:		
Net (loss)/ gain recognised in the consolidated statement of profit loss	(2,318,381)	8,609,968
Net loss recognised in the consolidated statement of comprehensive income	(15,459,996)	(16,057,733)
	(17,778,377)	(7,447,765)

Notes to the consolidated financial statements (continued)

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

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

	Year ended 31 Dec. 2014	Year ended 31 Dec. 2013
Profit for the year attributable to the owners of the parent company (KD)	4,549,199	9,965,482
Weighted average shares in issue during the year (number)	209,931,310	209,931,310
Basic and diluted earnings per share attributable to the owners of the parent company	22 Fils	47 Fils

Notes to the consolidated financial statements (continued)

11 Property, plant and equipment

31 December 2014	Land KD	Buildings KD	Plant and machinery KD	Vehicles, furniture and equipment KD	Agriculture farm and related facilities KD	Assets under construction KD	Total KD
Cost							
At 1 January 2014	274,773	8,212,503	25,950,618	2,481,318	358,244	114,228	37,391,684
Additions	-	-	66,713	190,362	-	477,637	734,712
Transfer	-	4,348	-	-	-	(4,348)	-
Foreign currency adjustment	10,493	37,987	350,257	15,925	13,681	1,623	429,966
At 31 December 2014	285,266	8,254,838	26,367,588	2,687,605	371,925	589,140	38,556,362
Accumulated depreciation							
At 1 January 2014	-	5,770,076	20,579,955	1,880,412	8,811	-	28,239,254
Charge for the year	-	173,149	1,220,869	214,524	2,085	-	1,610,627
Foreign currency adjustment	-	10,625	214,033	8,582	372	-	233,612
At 31 December 2014	-	5,953,850	22,014,857	2,103,518	11,268	-	30,083,493
Net book value							
At 31 December 2014	285,266	2,300,988	4,352,731	584,087	360,657	589,140	8,472,869

Notes to the consolidated financial statements (continued)

11 Property, plant and equipment (continued)

31 December 2013

Cost	Land KD	Buildings KD	Plant and machinery KD	Vehicles, furniture and equipment KD	Agriculture farm and related facilities KD	Assets under construction KD	Total KD
At 1 January 2013	274,378	8,211,071	25,906,372	2,184,144	357,226	180,189	37,113,380
Additions	-	-	34,803	271,120	503	66,906	373,332
Transfer	-	-	-	39,920	-	(39,920)	-
Disposal	-	-	(3,745)	(14,309)	-	(92,947)	(111,001)
Foreign currency adjustment	395	1,432	13,188	443	515	-	15,973
At 31 December 2013	274,773	8,212,503	25,950,618	2,481,318	358,244	114,228	37,391,684
Accumulated depreciation							
At 1 January 2013	-	5,597,444	19,204,401	1,672,316	6,801	-	26,480,962
Charge for the year	-	173,033	1,385,968	222,842	2,036	-	1,783,879
Relating to disposal	-	-	(134)	(14,308)	-	-	(14,442)
Foreign currency adjustment	-	(401)	(10,280)	(438)	(26)	-	(11,145)
At 31 December 2013	-	5,770,076	20,579,955	1,880,412	8,811	-	28,239,254
Net book value							
At 31 December 2013	274,773	2,442,427	5,370,663	600,906	349,433	114,228	9,152,430

The parent company's buildings are erected on lands leased from the Ministry of Finance and Public Authority for Industry on long-term leases, commencing from 1996 and for periods of either 5 or 20 years. The five years leases are renewable for similar period.

Notes to the consolidated financial statements (continued)

12 Available for sale investments

The components of available for sale investments are as follows:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Local quoted securities held through managed portfolios	79,843,244	99,899,493
Local unquoted securities held through managed portfolios	6,592,847	7,943,609
Foreign quoted securities held through managed portfolios	10,228,276	8,959,340
Foreign unquoted securities held through managed portfolios	27,392	27,392
Foreign unquoted securities	15,911,271	15,911,271
Local unquoted securities	40,425	40,381
Local managed fund	2,106,317	2,150,614
Foreign managed funds	484,735	508,133
	115,234,507	135,440,233

During the year the group recognised impairment loss of KD8,668,158 (31 December 2013: KD687,289) in respect of certain available for sale investments.

Foreign and local unquoted securities include investments amounting to KD15,922,585 (31 December 2013: KD15,922,585) stated at cost less impairment due to the unpredictable nature of future cash flows and the unavailability of other financial information to arrive at a reliable measure of fair value. Management has performed an analysis of the underlying investments which indicates that there is no impairment.

Managed funds include investments in units of private equity funds amounting to KD2,591,052 (31 December 2013: KD2,658,747). Fair value of these investments are determined using net asset values reported by the investment managers and the management believes that these represent the best estimate of fair values available for these investments.

13 Inventories

	31 Dec. 2014 KD	31 Dec. 2013 KD
Raw materials	20,729,687	11,393,838
Finished goods	20,693,400	18,437,711
Work-in-progress	7,242,018	8,476,650
Spare parts	1,949,410	1,920,584
	50,614,515	40,228,783
Provision for obsolete and slow moving inventories	(548,999)	(276,021)
	50,065,516	39,952,762
Goods in transit and prepaid letters of credit	1,747,607	5,031,302
	51,813,123	44,984,064

14 Trade accounts receivable

	31 Dec. 2014 KD	31 Dec. 2013 KD
Trade accounts receivable	31,697,198	28,324,289
Provision for doubtful debts	(2,886,302)	(2,721,437)
	28,810,896	25,602,852

Notes to the consolidated financial statements (continued)

14 Trade accounts receivable (continued)

The carrying values of the financial assets included above approximate their fair values and all of these are due within one year, such that the effect of any difference between the effective interest rate applied and the estimated current market rate is not significant.

Trade receivables are non-interest bearing and generally due on 30 – 180 days terms.

As at 31 December, the movement in the provision for doubtful debts is as follows:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Balance at 1 January	2,721,437	2,997,512
Charged for the year	663,938	663,606
Reversal of provision no longer required	(505,453)	(939,861)
Foreign currency adjustment	6,380	180
Balance at 31 December	2,886,302	2,721,437

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

	31 Dec. 2014 KD	31 Dec. 2013 KD
Neither past due nor impaired:		
- less than three months	15,008,153	17,451,332
- three – six months	7,562,881	4,457,649
Impaired:		
- over six months	9,126,164	6,415,308
Total trade accounts receivable	31,697,198	28,324,289

15 Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows comprise the following accounts:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Cash in hand	16,631	26,910
Cash held in managed portfolios	842,865	5,916,207
Bank balances	2,770,339	4,211,579
Total cash and cash equivalents	3,629,835	10,154,696
Less: due to banks	(20,377)	(138,160)
Cash and cash equivalents as per consolidated statement of cash flows	3,609,458	10,016,536

Notes to the consolidated financial statements (continued)

16 Share capital

	31 Dec. 2014 KD	31 Dec. 2013 KD
Authorised, issued and fully paid in cash shares of 100 Kuwaiti Fils each	20,993,131	20,993,131

17 Share premium

Share premium is not available for distribution.

18 Reserves

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

Distribution of legal reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

According to the parent company's articles of association and the Companies Law, 10% of the profit for the year attributable to the owners of the parent company before KFAS, NLST, Zakat and Directors' remuneration is transferred to the voluntary reserve.

The board of directors' decided to transfer 10% of the profit for the year attributable to the owners of the parent company before KFAS, NLST, Zakat and Directors' remuneration to the general reserve.

There are no restrictions on distribution of voluntary and general reserves.

19 Other components of equity

	Fair value reserve KD	Foreign currency translation reserve KD	Total KD
Balance at 1 January 2014	(2,623,448)	(152,343)	(2,775,791)
Exchange differences arising on translation of foreign operations	-	332,097	332,097
Available for sale investments:			
- Net change in fair value arising during the year	(24,143,271)	-	(24,143,271)
- Transferred to consolidated statement of profit or loss on sale	15,117	-	15,117
- Transferred to consolidated statement of profit or loss on impairment	8,668,158	-	8,668,158
Total other comprehensive (loss)/income for the year	(15,459,996)	332,097	(15,127,899)
Balance at 31 December 2014	(18,083,444)	179,754	(17,903,690)

Notes to the consolidated financial statements (continued)

19 Other components of equity (continued)

	Fair value reserve KD	Foreign currency translation reserve KD	Total KD
Balance at 1 January 2013	13,434,285	(152,179)	13,282,106
Exchange differences arising on translation of foreign operations	-	(164)	(164)
Available for sale investments:			
- Net change in fair value arising during the year	(16,611,421)	-	(16,611,421)
- Transferred to consolidated statement of profit or loss on sale	(133,601)	-	(133,601)
- Transferred to consolidated statement of profit or loss on impairment	687,289	-	687,289
Total other comprehensive loss for the year	(16,057,733)	(164)	(16,057,897)
Balance at 31 December 2013	(2,623,448)	(152,343)	(2,775,791)

20 Long term loans

	31 Dec. 2014 KD	31 Dec. 2013 KD
- USD 50,000,000 facility	10,319,750	12,784,500
- USD 20,000,000 facility	-	113,640
- KD 40,000,000 facility	10,000,000	20,000,000
	20,319,750	32,898,140
Instalments due within next twelve months	(13,243,350)	(12,954,640)
Instalments due after next twelve months	7,076,400	19,943,500

- Long term loan facility amounting to US\$50,000,000 was obtained from a regional bank. The loan is unsecured and carries floating interest of 2.15% (31 December 2013:2.15%) per annum above six months LIBOR. The loan is repayable in four semi annual instalments of US\$5,000,000 each and five semi annual instalments of US\$ 6,000,000 each ending on 18 September 2017.
- Long term loan facility amounting to US\$20,000,000 was obtained from a local bank. The loan is unsecured and carries interest of 1.75%(31 December 2013:1.75%) above three months LIBOR. The loan is repayable in twenty quarterly instalments of US\$1,000,000 each. The last instalment has been settled during the year.
- Long term loan facility amounting to KD40,000,000, which were obtained from a local bank. The loan is unsecured and carries interest of 1.75% (31 December 2013: 2.5%) per annum above Central Bank of Kuwait discount rate. The loan is repayable in eight semi annual instalments of KD5,000,000 each ending on 15 August 2015.

Notes to the consolidated financial statements (continued)

21 Short term loans

	31 Dec. 2014 KD	31 Dec. 2013 KD
Kuwait Dinar facility	18,500,000	22,100,000
USD facilities	14,520,366	8,176,648
	33,020,366	30,276,648

The group obtained unsecured short term loans from local banks carrying interest rate ranging from 1.25% to 1.75% (31 December 2013: 1.5% to 2%) per annum above Central Bank of Kuwait discount rate and floating interest rate of 1.75% to 2% (31 December 2013: 1.5% to 2%) per annum above three months LIBOR. The loans mature on various dates ending 12 May 2015.

22 Murabaha payables

	31 Dec. 2014 KD	31 Dec. 2013 KD
USD facilities	10,588,754	-
	10,588,754	-

The group obtained murabaha facilities from a local Islamic Bank and it carries profit rate of 2.33%. The murabaha payables mature on various dates ending 27 May 2015.

23 Other payables and accruals

	31 Dec. 2014 KD	31 Dec. 2013 KD
Kuwait Foundation for the Advancement of Sciences	48,729	105,181
National Labour Support Tax	-	108,174
Contribution to Zakat	-	29,270
Directors' remuneration	275,000	310,000
Brokers payable	-	13,809
Uncollected dividends	2,134,359	2,031,392
Accrued staff dues	3,728,995	4,290,992
Other liabilities	1,084,135	887,027
	7,271,218	7,775,845

24 Proposed dividends

Subject to the requisite consent of the relevant authorities and approval of the general assembly, the directors propose for the year ended 31 December 2014 a cash dividend of 20% which equivalent to 20 Fils per share of paid up share capital.

The Annual General Assembly of the shareholders held on 20 April 2014 approved the consolidated financial statements of the group for the year ended 31 December 2013 and declared cash dividend of 30% equivalent to 30 Fils per share amounting to KD6,297,939 for the year ended 31 December 2013 and was paid following that approval.

Notes to the consolidated financial statements (continued)

25 Segmental information

Operating segments are identified based on internal management reporting information that is regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance and it reconcile to group profit or loss.

The group's reportable segments are cable manufacture and investment. The information relating to these segments are as follows:

	Cable manufacture KD	Investment KD	Total KD
At 31 December 2014			
Revenue/(loss)	112,408,337	(2,223,759)	110,184,578
Segment profit/(loss)	8,615,222	(3,717,637)	4,897,585
Unallocated expenses			(323,729)
Profit for the year			4,573,856
Total assets	92,525,595	116,839,680	209,365,275
Total Liabilities	(43,138,571)	(34,104,279)	(77,242,850)
Net assets employed	49,387,024	82,735,401	132,122,425
Purchase of property, plant and equipment	734,712	-	734,712
Depreciation	1,610,627	-	1,610,627
Impairment of available for sale investments	-	8,668,158	8,668,158
Finance costs	763,527	1,252,034	2,015,561
Dividend income	-	6,383,049	6,383,049
At 31 December 2013			
Revenue	97,872,275	8,610,072	106,482,347
Segment profit	3,822,393	6,733,436	10,555,829
Unallocated expenses			(552,625)
Profit for the year			10,003,204
Total assets	84,605,602	141,356,440	225,962,042
Total Liabilities	(38,987,235)	(38,019,728)	(77,006,963)
Net assets employed	45,618,367	103,336,712	148,955,079
Purchase of property, plant and equipment	373,332	-	373,332
Depreciation	1,783,879	-	1,783,879
Impairment of available for sale investments	-	687,289	687,289
Finance costs	822,095	1,603,561	2,425,656
Dividend income	-	7,951,495	7,951,495
Geographical information:-			
	31 Dec. 2014 KD	31 Dec. 2013 KD	
Revenue:			
Kuwait	78,741,520	76,505,698	
Middle East	31,385,829	29,818,423	
International	57,229	158,226	
	110,184,578	106,482,347	

Notes to the consolidated financial statements (continued)

26 Related party transactions

Related parties represent major shareholders, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the group's management. Transactions between the parent company and its subsidiaries which are related parties of the parent company have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below. During the period, the group entities entered into the following transactions with related parties that are not members of the group:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Amounts included in consolidated statement of financial position		
Trade accounts receivables	3,826,677	2,104,747
Other receivables and prepayments	291,750	-
Trade accounts payables	6,095	5,016
Amounts included in consolidated statement of profit or loss		
Sales	3,337,852	2,237,018
Industrial expenses	(7,603)	(27,084)
(Provision)/reversal of provision doubtful debts	(178,148)	42,187
Key management compensation:		
Salaries and other short term benefits	391,707	440,130
End of service benefits	125,844	42,913
Provision for directors' remuneration	275,000	310,000
	792,551	793,043

27 Capital commitments

At 31 December 2014, the group was committed to purchase new machinery and equipment amounting to KD184,532 (31 December 2013: KD416,303).

28 Contingent liabilities

Contingent liabilities at 31 December 2014 in respect of outstanding letters of guarantee amounted to KD6,653,411 (31 December 2013: KD6,622,081).

29 Risk management objectives and policies

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 parent company's board of directors are ultimately responsible for the overall risk management and for approving risk strategies and principles. The group's risk management focuses on actively securing the group's short to medium term cash flows by minimizing the potential adverse effects on the group's financial performance. Long term financial investments are managed to generate lasting returns.

The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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

Notes to the consolidated financial statements (continued)

29 Risk management objectives and policies (continued)

29.1 Market risk

a) Foreign currency risk

The group mainly operates in the GCC and other Middle Eastern countries and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to Bahrain Dinar and US Dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

To mitigate the group's exposure to foreign currency risk, non-Kuwaiti Dinar cash flows are monitored and forward exchange contracts, if required, are entered into in accordance with the group's risk management policies. Generally, the group's risk management procedures distinguish short-term foreign currency cash flows (due within twelve months) from longer-term cash flows.

Where the amounts to be paid and received in specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward foreign contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

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

	31 Dec. 2014 KD	31 Dec. 2013 KD
Bahrani Dinar	2,929,965	5,325,125
US Dollar	(29,146,760)	(7,214,537)

The foreign currency sensitivity is determined based on 2% (2013: 2%) increase or decrease in exchange rate. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

If the Kuwaiti Dinar had strengthened against the foreign currencies assuming the above sensitivity, then this would have the following impact on the profit for the year. There is no impact on the group's equity:

	Profit for the year	
	31 Dec. 2014 KD	31 Dec. 2013 KD
Bahrani Dinar	(58,599)	(106,503)
US Dollar	582,935	144,291
	524,336	37,788

If the Kuwaiti Dinar had weakened against the foreign currencies assuming the above sensitivity, then impact on the group's profit for the year would have been equal and opposite to the above.

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.

Notes to the consolidated financial statements (continued)

29 Risk management objectives and policies (continued)

29.1 Market risk (continued)

b) Interest and profit rate risk

Interest and profit rate risk arises from the possibility that changes in interest and profit rates will affect future profitability or the fair values of financial instruments. The group has no significant interest bearing assets other than bank balances. The group is exposed to interest rate risk with respect to its borrowings which are both at fixed rate and floating interest rate. The risk is managed by the group by maintaining an appropriate mix between fixed and floating rate borrowings. The board monitors the interest rate risk by setting limits.

Positions are monitored on a regular basis and hedging strategies are used, if required, to ensure positions are maintained within established limits.

The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in interest rates of +1% and -1% (2013: +1% and -1%) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market condition.

The calculations are based on the group's financial instruments held at each financial position date. All other variables are held constant. There is no impact on the group's equity:

	31 Dec. 2014		31 Dec. 2013	
	+1% KD	-1% KD	+1% KD	-1% KD
Profit for the year	(634,423)	634,423	(626,449)	626,449

There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

c) Price risk

The group is exposed to equity price risk with respect to its equity investments. Equity investments are classified as available for sale.

To manage its price risk arising from investments in equity securities, the group diversifies its portfolio.

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. There has been no change during the year in the methods and assumptions used in preparing the sensitivity analysis.

If equity prices had been 2% (2013: 2%) higher/lower, the effect on the profit for the year and equity would have been as follows:

	31 Dec. 2014		31 Dec. 2013	
	Increase 2%	Decrease 2%	Increase 2%	Decrease 2%
Available for sale investments				
Impact on equity	1,957,187	504,464	2,708,805	(2,156,890)
Impact on profit for the year	-	(2,461,651)	-	(551,915)

29.2 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. It also obtains security when appropriate.

Notes to the consolidated financial statements (continued)

29 Risk management objectives and policies (continued)

29.2 Credit risk (continued)

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

	31 Dec. 2014 KD	31 Dec. 2013 KD
Available for sale investments	99,282,811	119,488,581
Trade accounts receivable	28,810,896	25,602,852
Other receivables (excluding prepayments)	1,080,289	210,638
Cash and bank balances	3,613,204	10,127,786
	132,787,200	155,429,857

Cash and bank balances are maintained with high credit quality financial institutions. Trade accounts receivable are presented net of provision for doubtful debts. Management believes the net balances are neither past due nor impaired.

29.3 Liquidity risk

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

The table below summarises the discounted maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period from the consolidated financial position date to the contractual maturity date. The maturity profile for available for sale investments is determined based on management's estimate of liquidation of those investments.

Maturity profile of assets and liabilities at 31 December 2014:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Over 1 year KD	Total KD
2014 Assets					
Property, plant and equipment	-	-	-	8,472,869	8,472,869
Available for sale investments	-	-	-	115,234,507	115,234,507
Inventories	8,168,642	24,505,927	19,138,554	-	51,813,123
Trade accounts receivable	6,977,440	16,745,859	5,087,597	-	28,810,896
Other receivables and prepayments	79,699	523,500	800,846	-	1,404,045
Cash and bank balances	3,629,835	-	-	-	3,629,835
	18,855,616	41,775,286	25,026,997	123,707,376	209,365,275
Liabilities					
Provision for employees' end of service benefits	-	-	-	2,487,023	2,487,023
Term loans	8,500,000	30,119,208	7,644,508	7,076,400	53,340,116
Trade accounts payable	-	3,535,362	-	-	3,535,362
Other payables and accruals	87,784	1,371,414	5,812,020	-	7,271,218
Murabaha payables	-	9,114,504	1,474,250	-	10,588,754
Due to banks	20,377	-	-	-	20,377
	8,608,161	44,140,488	14,930,778	9,563,423	77,242,850

Notes to the consolidated financial statements (continued)

29 Risk management objectives and policies (continued)

29.3 Liquidity risk (continued)

Maturity profile of assets and liabilities at 31 December 2013:

	Up to 1 month KD	1-3 months KD	3-12 months KD	Over 1 year KD	Total KD
2013					
Assets					
Property, plant and equipment	-	-	-	9,152,430	9,152,430
Available for sale investments	-	-	-	135,440,233	135,440,233
Inventories	7,497,344	22,492,033	14,994,687	-	44,984,064
Trade accounts receivable	6,200,514	14,881,236	4,521,102	-	25,602,852
Other receivables and prepayments	29,080	132,168	466,519	-	627,767
Cash and bank balances	10,154,696	-	-	-	10,154,696
	23,881,634	37,505,437	19,982,308	144,592,663	225,962,042
Liabilities					
Provision for employees' end of service benefits	-	-	-	2,145,342	2,145,342
Term loans	1,378,028	32,351,657	9,501,603	19,943,500	63,174,788
Trade accounts payable	-	3,772,828	-	-	3,772,828
Other payables and accruals	924,448	1,342,944	5,508,453	-	7,775,845
Due to banks	138,160	-	-	-	138,160
	2,440,636	37,467,429	15,010,056	22,088,842	77,006,963

30 Fair value measurement

30.1 Fair value hierarchy

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.

Financial assets and financial liabilities measured at fair value in the consolidated statement of financial position 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 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the consolidated financial statements (continued)

30 Fair value measurement (continued)

30.1 Fair value hierarchy (continued)

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

	31 Dec 2014 KD	31 Dec 2013 KD
Financial assets:		
<i>Loans and receivables at amortised cost:</i>		
- Trade accounts receivable	28,810,896	25,602,852
- Other receivables (excluding prepayments)	1,080,289	210,638
- Cash and bank balances	3,613,204	10,127,786
<i>Available for sale investments</i>		
-At fair value	97,859,361	117,205,087
-At cost less impairment, if any.	17,375,146	18,235,146
	148,738,896	171,381,509
Financial liabilities:		
<i>Financial liabilities at amortised cost:</i>		
-Long term loans	20,319,750	32,898,140
-Trade accounts payable	3,535,362	3,772,828
-Other payables and accruals	7,271,218	7,775,845
-Short term loans	33,020,366	30,276,648
-Murabaha payables	10,588,754	-
-Due to banks	20,377	138,160
	74,755,827	74,861,621

Management considers that the carrying amounts of loans and receivables and all financial liabilities, which are stated at amortised cost, approximate their fair values.

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

30.2 Fair value measurement of financial instruments

The financial assets and liabilities measured at fair value on a recurring basis in the interim condensed consolidated financial position are grouped into the fair value hierarchy as follows:

31 December 2014	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
<i>Available for sale investment:</i>				
Local quoted securities held through managed portfolios	79,843,244	-	-	79,843,244
Local unquoted securities held through managed portfolios	-	-	5,140,286	5,140,286
Foreign quoted securities held through managed portfolios	10,228,276	-	-	10,228,276
Foreign unquoted securities held through managed portfolios	-	-	27,392	27,392
Local unquoted securities	-	-	29,111	29,111
Local managed fund	-	2,106,317	-	2,106,317
Foreign managed funds	-	484,735	-	484,735
	90,071,520	2,591,052	5,196,789	97,859,361

Notes to the consolidated financial statements (continued)

30 Fair value measurement (continued)

30.2 Fair value measurement of financial instruments (continued)

31 December 2013	Level 1 KD	Level 2 KD	Level 3 KD	Total KD
Available for sale investment:				
Local quoted securities held through managed portfolios	99,899,493	-	-	99,899,493
Local unquoted securities held through managed portfolios	-	-	5,631,048	5,631,048
Foreign unquoted securities held through managed portfolios	8,959,340	-	-	8,959,340
Foreign unquoted securities held through managed portfolios	-	-	27,392	27,392
Local unquoted securities	-	-	29,067	29,067
Local managed fund	-	2,150,614	-	2,150,614
Foreign managed funds	-	508,133	-	508,133
	108,858,833	2,658,747	5,687,507	117,205,087

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

Measurement at fair value

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

a) Quoted securities

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

b) Unquoted securities

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

c) Investment in managed funds

Investment funds managed by other mainly comprise of unquoted units and the fair value of these units has been determined based on net assets values reported by the fund manager as of the reporting date.

Level 3 fair value measurements

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

	Available for sale investments	
	31 Dec. 2014 KD	31 Dec. 2013 KD
Opening balance	5,687,507	5,583,060
Purchase	75,088	-
Gains or losses recognised in:		
- Other comprehensive (loss)/Income	(565,806)	104,447
Closing balance	5,196,789	5,687,507

Notes to the consolidated financial statements (continued)

30 Fair value measurement (continued)

30.2 Fair value measurement of financial instruments (continued)

Level 3 fair value measurements (continued)

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 impact on interim condensed consolidated statement of income and interim condensed consolidated statement of comprehensive income would be immaterial if the relevant risk variable used to fair value the level 3 investments were changed by 5%.

31 Derivative financial instruments

Financial derivatives are financial instruments that derive their value by referring to interest rate applied to the amounts of the notional principal. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such financial instruments.

Financial derivatives are carried at fair value and shown in the consolidated statement of financial position net of any internal arbitrage deals. Positive fair value represents the cost of replacing all transactions with a fair value in the group's favour had the rights and obligations arising from that instrument been closed in an orderly market transaction at the consolidated financial position date. Credit risk in respect of derivative financial instruments is limited to the positive fair value of instruments. Negative fair value represents the cost to the group in favour of the counterparties.

The group deals in interest rate swaps to manage its interest rate risk on interest bearing term loan.

Under interest rate swap contract, the group agreed to exchange the difference between fixed and floating rate interest amounts on term loan calculated on agreed notional principal amount. Such contracts enable the group to mitigate the risk of changing interest rates on the cash flow exposures on the term loan. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract, and as disclosed below. The average interest rate is based on the outstanding balances at the end of the reporting period.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the end of the reporting period.

	Notional principal value		Fair value (Negative)/Positive	
	31 Dec. 2014 USD	31 Dec. 2013 USD	31 Dec. 2014 KD	31 Dec. 2013 KD
Interest rate swap	35,000,000	45,000,000	(7,313)	22,052

The interest rate swap does not meet conditions for hedge accounting and is, therefore, accounted for as fair value hedge from the outset.

Notes to the consolidated financial statements (continued)

32 Capital management objectives

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

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

The capital structure of the group consists of the following:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Long term loans (note 20)	20,319,750	32,898,140
Short term loans (note 21)	33,020,366	30,276,648
Murabaha payable (note 22)	10,588,754	-
Less: Cash and cash equivalents (note 15)	(3,609,458)	(10,016,536)
Net debt	60,319,412	53,158,252
Equity attributable to the owners of the parent company	131,583,215	148,459,854

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 total equity attributable to the owners of the parent company as follows:

	31 Dec. 2014 KD	31 Dec. 2013 KD
Net debt	60,319,412	53,158,252
Total equity attributable to the owners of the parent company	131,583,215	148,459,854
Gearing ratio	46%	36%