شركة الساحل للتنمية والاستثمار ش.م.ك (مقفلة)

COAST INVESTMENT & DEVELOPMENT CO. K.S.C (CLOSED)

2012

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In the name of Allah
The most gracious, the most merciful

His Highness Sheikh
Sabah Al-Ahmad Al-Jaber Al-Sabah
The Amir Of The State Of Kuwait

His Highness Sheikh
Jaber Mubarak Al-Hamad Al-Sabah
The Prime Minister

His Highness Sheikh
Nawaf Al-Ahmad Al-Jaber Al-Sabah
The Crown Prince

شركة الساحل للتنمية والاستثمار ش.م.ك (مقفلة)

COAST INVESTMENT & DEVELOPMENT CO. K.S.C (CLOSED)

Board of Directors

Khaled Abdulaziz Al-Usaimi
Chairman & CEO

Sulaiman Khaled Al-Sahli
Vice Chairman

Hamad Ahmad Al-Amiri
Board Member

Anwar Jassim Al-Kharafi
Board Member

Abdulhadi Ahmad Al-Dousari
Board Member

Bader Yousef Al-Ghanim
Board Member

Bader Mohammad Al-Qattan
Board Member

General Management

Khaled Abdulaziz Al-Usaimi
Chief Executive officer

Mohammad Rashed Al-Qaoud
Senior Vice President- Support group

Muneer Abdulmuhsen Al-Sharhan
Senior Vice President- Investment group

Message From The Chairman

Dear Shareholders of Coast Investment and Development Company ("Coast")

Peace and Blessings of Allah be upon you,

My colleagues the members of the Board of Directors and I are pleased to welcome you in the Ordinary General Assembly Meeting of Coast, and present to you the annual report for the year ending on December 31, 2012.

The global economy varied during 2012 in terms of performance, growth, and key stock Market indices. The US economy continued its strong performance throughout 2012, with the Dow Jones Stock Index up by 10% during the year, while the unemployment rate was down below 8%, thus, outperforming the Euro zone economies which continued to suffer the adverse repercussions of the global financial recession. The Euro zone unemployment rate reached a record high 11% driven by the aggravated debt crisis, economic slowdown, and the degraded growth rates in the majority of countries in the region. These countries are precluding the recovery and stability of the global economy.

As for the economies of the Gulf Cooperation Council countries (GCC), in spite of the discrepancy in the performance and challenges facing each country, the growing increase of the oil prices have largely contributed to safeguarding the GCC countries against the adverse effects of the global financial recession. Locally, the price per barrel of Kuwaiti oil continually increased to a range between US$ 104 and US$ 110 during the year. Obviously, this hike in oil prices has caused an increase in the State's revenues and the Gross Domestic Product to rise by 5.1% during the year. It is therefore expected that the State could achieve a surplus in the budget of up to KD 16 billion during the financial year 2012 – 2013, an increase of 20% as compared to the financial year 2011-2012.

However, in spite of the accumulated surpluses in the State's budget over the past years, the economy is still stagnant and that was largely attributable to the continuing political differences which diverted attention away from the development programs and inactivated projects that were necessary for regaining confidence in the economy.

The Kuwait Stock Exchange's performance was weak during 2012 due to the reluctance of investors caused by the aforementioned reasons. The Weighted Index ended up by 3.39%, the Price Index ended up by 2.01%, while the trading volume up by 17% in 2012. The value of the traded shares was KD 7.3 billion during the year 2012 as compared to KD 6.2 billion in 2011. The market capitalization decreased by 1.5% to KD 27.6 billion.

Critical to note is that KSE, specifically in May 2012, opted to reorganize the market sectors and re-classify the companies according to NASDAQ trading system, which benchmarks the international rating of market sectors, in a bid to encourage foreign investors and remain competitive with global stock exchanges. The new Kuwait 15 Index incorporating the top 15 listed companies in terms of liquidity and value were also has been added at the same time.

Dear Shareholders,

No doubt that the continued global financial recession and the local economic slowdown have negatively affected Coast's stream of revenues, making it imperative to revise our plans and policies in place and to increase our efforts to overcome the challenges such as meeting our liabilities towards creditors on one hand and maintain Coast's existing investments on the other. Currently Coast is in the process of running extensive negotiations with all local creditor banks targeting the rescheduling of the existing loans in a manner that achieves the highest levels of stability and growth. Coast also managed to issue a capital call for its subsidiary; the Kuwaiti German Holding Company being Coast's investment arm in Germany. This step is believed to help the company reinforce its financial position and expand its investment plans.

Dear Shareholders,

The decline in the value of large cap stocks listed in the Kuwaiti Stock exchange had a direct impact on Coast's local portfolio performance, coupled with the continuing global financial recession and the struggling European economy, collectively this has caused the company revenues to decline substantially and obviously affected the year end results. In view of the foregoing, the consolidated income statement of 2012 recorded a loss of KD 6.75 million compared to profits of KD 4.15 million in 2011. The total assets decreased by 5% to KD 239.98 million, and the shareholders' equity decreased by 1% to KD 51.71 million, as compared to the previous year.

In conclusion, we are much obliged to the shareholders for their continuous trust and ongoing support, and to the members of the Board of Directors and the staff. We truly call Allah the Al-Mighty to help us achieve better results in the years to come.

Respectfully,

Khaled Abdulaziz Al-Usaimi
Chairman & CEO

شركة الساحل للتنمية والاستثمار ش.م.ك (مقفلة)

COAST INVESTMENT & DEVELOPMENT CO. K.S.C (CLOSED)

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Report on Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Coast Investment & Development Company K.S.C. (Closed) (the "parent company") and its subsidiaries (collectively "the group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of 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 is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait 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 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 parent company'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 group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by parent company's 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 the group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted for use by the State of Kuwait.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS of
COAST INVESTMENT & DEVELOPMENT COMPANY K.S.C. (CLOSED) (continued)
Report on Consolidated Financial Statements (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, 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, as amended, and by the parent company's articles of association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended, nor of the parent company's articles of association, as amended, have occurred during the year ended 31 December 2012 that might have had a material effect on the business of the parent company or on its financial position.

We further report that, during the course of our audit we have not become aware of any material violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations during the year ended 31 December 2012.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
OF ERNST & YOUNG

DR. SAUD AL-HUMAIDI
License No. 51 A
Dr. Saud Al-humaidi & Partners
Member of Baker Tilly International

10 April 2013
Kuwait

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012

	Notes	***2012 KD '000***	*2011 KD '000*
Sales	3	112,648	15,523
Cost of raw materials		(48,393)	(10,420)
GROSS PROFIT		64,255	5,103
INCOME			
Net investment (loss) income	4	(130)	8,490
Share of results of associates	11	577	4,087
Dividend income	12 & 15	1,152	3,016
Management fees		722	942
Interest income		440	146
Other income	5	4,930	3,857
		71,946	25,641
EXPENSES			
General and administrative expenses	6	(66,496)	(8,623)
Finance costs		(5,288)	(4,200)
Foreign exchange loss		(708)	(1)
Depreciation	9	(3,157)	(433)
Amortisation	10	(5,761)	(1,138)
(Impairment loss) write back of impairment loss on accounts	13	(393)	2
Receivable		-	(2,397)
Impairment loss on investment in associates	11		
Impairment loss on financial assets available for sale	12	(667)	(4,925)
(Loss) profit for the year before taxation		(10,524)	3,926
Taxation	7	(938)	(1,112)
(LOSS) PROFIT FOR THE YEAR		(11,462)	2,814
ATTRIBUTABLE TO:			
Shareholders of the parent company		(6,757)	4,155
Non-controlling interest		(4,705)	(1,341)
		(11,462)	2,814
Basic and diluted (loss) earnings per share attributable to shareholders of the parent company	8	Fils **(12)**	Fils 7

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	Notes	**2012 KD '000**	*2011 KD '000*
(LOSS) PROFIT FOR THE YEAR		(11,462)	2,814
OTHER COMPREHENSIVE INCOME (LOSS)			
Changes in fair values of financial assets available for sale		(186)	(9,450)
Impairment loss on financial assets available for sale transferred to consolidated income statement		667	4,925
Realised loss on sale of financial assets available for sale transferred to consolidated income statement	4	171	530
Share of other comprehensive (loss) income of associates	11	(111)	75
Foreign currency translation adjustment		9,808	(10,106)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		10,349	(14,026)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,113)	(11,212)
ATTRIBUTABLE TO:			
Shareholders of the parent company		(465)	(6,664)
Non-controlling interest		(648)	(4,548)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(1,113)**	(11,212)

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2012

	Notes	***2012 KD '000***	*2011 KD '000*
ASSETS			
Non-current assets			
Property, plant and equipment	9	29,825	30,554
Investment property		141	140
Intangible assets	10	89,482	90,231
Investment in associates	11	25,530	25,496
Financial assets available for sale	12	24,704	25,302
Accounts receivable and prepayments	13	1,458	893
Deferred tax assets	14	2,324	2,776
		173,464	175,392
Current Assets			
Financial assets at fair value through profit or loss	15	1,313	5,448
Accounts receivable and prepayments	13	19,400	21,229
Inventories	16	24,680	24,994
Cash and bank balances	17	13,126	21,445
Money at call and short notice	17	8,002	4,834
		66,521	77,950
TOTAL ASSETS		**239,985**	253,342
EQUITY AND LIABILITIES			
Equity			
Share capital	18	62,529	62,529
Statutory reserve	18	11,647	11,647
Voluntary reserve	18	1,991	1,991
Treasury shares	18	(7,366)	(7,366)
Treasury shares reserve		577	577
Other reserve		2,579	2,812
Foreign currency translation reserve		866	(4,885)
Cumulative changes in fair values			
Accumulated losses		(95)	636)
		(21,011)	(14,254)
Equity attributable to shareholders of the parent company		51,717	52,415
Non-controlling interest		61.171	54.350
Total equity		**112.888**	106.765

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2012

	Notes	**2012 KD '000**	*2011 KD '000*
Liabilities			
Non-current liabilities			
Borrowings	19	26,949	32,161
End of service benefits	20	15,115	13,659
Accounts payable and accruals	21	7,047	8,043
Amount due to related parties	22	8,372	6,274
Other accruals	23	904	1,683
Deferred tax liabilities	14	1,418	1,412
		59,805	63,232
Current liabilities			
Bank overdrafts	17	639	4
Borrowings	19	41,393	45,283
Accounts payable and accruals	21	20,432	23,807
Amount due to related parties	22	-	8,630
Other accruals	23	4,828	5,621
		67,292	83,345
Total liabilities		127,097	146,577
TOTAL EQUITY AND LIABILITIES		**239,985**	253,342

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Attributable to shareholders of the parent company											
	Share capital KD '000	Statutory reserve KD '000	Voluntary reserve KD '000	Treasury shares KD '000	Treasury shares reserve KD '000	Other reserve KD 000	Foreign currency translation reserve KD '000	Cumulative changes in fair values KD '000	Accumulated losses KD '000	Sub total KD '000	Non-controlling interest KD '000	Total KD '000
As at 1 January 2012	62,529	11,647	1,991	(7,366)	577	2,812	(4,885)	(636)	(14,254)	52,415	54,350	106,765
Loss for the year	-	-	-	-	-	-	-	-	(6,757)	(6,757)	(4,705)	(11,462)
Other comprehensive income	-	-	-	-	-	-	5,751	541	-	6,292	4,057	10,349
Total comprehensive income (loss) for the year	-	-	-	-	-	-	5,751	541	(6,757)	(465)	(648)	(1,113)
Increase in share capital of a subsidiary	-	-	-	-	-	-	-	-	-	-	7,159	7,159
Change in ownership interest in a subsidiary without loss of control	-	-	-	-	-	(233)	-	-	-	(233)	310	77
As at 31 December 2012	**62,529**	**11,647**	**1,991**	**(7,366)**	**577**	**2,579**	**866**	**(95)**	**(21,011)**	**51,717**	**61,171**	**112,888**
As at 1 January 2011	62,529	11,647	1,991	(7,340)	577	-	2,014	3,284	(18,409)	56,293	43	56,336
Profit (loss) for the year	-	-	-	-	-	-	-	-	4,155	4,155	(1,341)	2,814
Other comprehensive loss	-	-	-	-	-	-	(6,899)	(3,920)	-	(10,819)	(3,207)	(14,026)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(6,899)	(3,920)	4,155	(6,664)	(4,548)	(11,212)
Purchase of treasury shares	-	-	-	(26)	-	-	-	-	-	(26)	-	(26)
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	61,667	61,667
Purchase of non-controlling interest	-	-	-	-	-	2,812	-	-	-	2,812	(2,812)	-
As at 31 December 2011	62,529	11,647	1,991	(7,366)	577	2,812	(4,885)	(636)	(14,254)	52,415	54,350	106,7 65

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Notes	2012 KD '000	2011 KD '000
OPERATING ACTIVITIES			
(Loss) profit for the year		(11,462)	2,814
Adjustments for:			
Unrealised loss on financial assets at fair value through profit or loss	4	82	3,001
Net gain on sale of financial assets available for sale	4	(171)	(530)
Gain on fair valuation of previously held equity interest in subsidiaries	4	-	(13,040)
Share of results of associates	11	(577)	(4,087)
Dividend income	12 & 15	(1,152)	(3,016)
Interest income		(440)	(146)
Depreciation and amortisation	9 & 10	8,918	1,571
Impairment loss (write back) of impairment loss on accounts receivable		393	(2)
Impairment loss on investment in associates	11	-	2,397
Impairment loss on financial assets available for sale	12	667	4,925
Finance costs		5,288	4,200
End of service benefits	20	635	168
Taxation	7	938	1,112
		3,119	(633)
Changes in operating assets and liabilities:			
Financial assets at fair value through profit or loss		4,053	14,082
Accounts receivable and prepayments		871	14,564
Inventories		314	10,849
Accounts payable and accruals		(7,499)	(8,201)
Other accruals		(1,912)	6,371
Amount due to related parties		(3,155)	(12,535)
End of service benefits paid	20	(1,131)	(977)
Taxes paid		(480)	-
Net cash (used in) from operating activities		**(5,820)**	23,520
INVESTING ACTIVITIES			
Net acquisition of property, plant and equipment		(1,612)	(462)

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Notes	2012 KD '000	2011 KD '000
Net movement in intangible assets		(1,108)	-
Investment in associates	11	-	(10,491)
Proceeds from redemption of investment in associates	11	370	3,349
Dividends received from associates	11	-	1,092
Net movement in financial assets available for sale		643	2,058
Proceeds from disposal of subsidiary without loss of control		77	-
Net cash inflow on acquisition of subsidiaries		-	10,721
Purchase of non-controlling interest		-	(486)
Dividend received	12 & 15	1,152	3,016
Interest income received		440	45
Net cash (used in) from investing activities		**(38)**	8,842
FINANCING ACTIVITIES			
Purchase of treasury shares		-	(26)
Proceeds from borrowings		2,941	-
Repayment of borrowings		(12,043)	(18,905)
Finance costs paid		(5,197)	(3,935)
Movement in non-controlling interest		6,680	19,992
Net cash used in financing activities		(7,619)	(2,874)
Net foreign exchange differences		7,691	(5,053)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(5,786)	24,435
Cash and cash equivalents at 1 January	17	26,275	1,840
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	17	**20,489**	26,275

The attached notes 1 to 33 form part of these consolidated financial statements.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

1. INCORPORATION AND ACTIVITIES

Coast Investment & Development Company K.S.C. (Closed) (the "parent company") is a Kuwaiti closed shareholding company incorporated on 29 July 1975. The parent company and its subsidiaries (collectively, the "group") are engaged in various types of investment management activities such as private equity, asset management and real estate investments in local and international markets. The parent company's registered office is at PO Box 26755, Safat 13128, State of Kuwait.

The parent company's shares are listed on the Kuwait Stock Exchange.

The consolidated financial statements of the group for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 10 April 2013, and are issued subject to the approval of the annual general assembly of the shareholders' of the parent company. The annual general assembly of the shareholders has the power to amend these consolidated financial statements after issuance.

The principal activities of the group are explained in note 26.

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

According to article 2 and 3 of the Decree, Executive Regulations which shall be issued by the Ministry of Commerce and Industry by 26 September 2013 will determine the basis and rules which the parent company shall adopt to regularise its affairs with the Companies Law, as amended.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the State of Kuwait for financial services institutions regulated by the Central Bank of Kuwait ("CBK"). These regulations require adoption of all IFRS except for the International Accounting Standard IAS 39: Financial Instruments: Recognition and Measurement requirement for a collective provision, which has been replaced by the CBK's requirement for a minimum general provision as described under the accounting policy for impairment of financial assets.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention except for the measurement at fair value of financial assets at fair value through profit or loss, financial assets available for sale and investment property.

The consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the functional currency of the parent company, and all values are rounded to the nearest thousand except when otherwise indicated.

Changes in accounting policy and disclosures

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption of the following amended IASB Standards during the year:

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets (effective 1 January 2012)

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Changes in accounting policy and disclosures (continued)

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment has no effect on the group's financial position, performance or its disclosures.

IFRS 3: Business Combinations (Amendment) (effective 1 July 2011)
The measurement options available for non controlling interest have been amended. Only components of non controlling interest that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendment has no effect on the group's financial position, performance or its disclosures.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements (effective 1 July 2011)
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The group does not have any assets with these characteristics so there has been no effect on the presentation of its consolidated financial statements.

Standards issued but not yet effective
The following new and amended IASB Standards have been issued but not yet mandatory, and have not been adopted by the group:

IAS 1: Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment) (effective for annual periods beginning on or after 1 July 2012)
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the group's financial position or performance.

IAS 19: Employee Benefits (Amendment) (effective for annual periods beginning on or after 1 January 2013)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. However, the amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. Further, the removal of the corridor mechanism will also result in recognition actuarial gains (losses) immediately in other comprehensive income instead of income statement. With the application of this amendment the unrecognised actuarial losses, as of 1 January 2013, amounting to KD 4,921 thousand will be recognised in other comprehensive income.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Standards issued but not yet effective (continued)

IAS 27: Separate Financial Statements (Amendment) (effective for annual periods beginning on or after 1 January 2013)

As a consequence of the new IFRS 10: Consolidated Financial Statements and IFRS 12: Disclosure of Involvement with other entities, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The group does not present separate financial statements.

IAS 28: Investments in Associates and Joint Ventures (Amendment) (effective for annual periods beginning on or after 1 January 2013)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

IAS 32: Offsetting Financial Assets and Financial Liabilities (Amendment) (effective for annual periods beginning on or after 1 January 2014)

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the group's financial position or performance.

IFRS 7: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendment) (effective for annual periods beginning on or after 1 January 2013)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the group's financial position or performance.

IFRS 9: Financial Instruments: Classification and Measurement (effective 1 January 2015)

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39: Financial Instruments: Recognition and Measurement and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10: Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation —Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Basis of consolidation

controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The group is in the process of evaluating the impact of IFRS 10 on the consolidated financial statements.

IFRS 11: Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the group.

IFRS 12: Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013)
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the group's financial position or performance.

IFRS 13: Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The group is currently assessing the impact that this standard will have on the financial position and performance.
Additional disclosures will be made in the consolidated financial statements when these Standards become effective.

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2012.
Subsidiaries are those enterprises controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements on a line by line basis from the date that control is effective until the date that control ceases.
The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All material intra group balances, transactions, unrealised gains and losses resulting from intra group transactions are eliminated on consolidation.
Non controlling interest represents the equity in the subsidiaries not attributable directly, or indirectly, to the shareholders of the parent company. Equity and net income attributable to non controlling interest are shown separately in the consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity.

Losses within a subsidiary are attributed to the non controlling interest even if that results in a deficit balance.
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the group loses control over a subsidiary, it:
- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Derecognises the other reserve balance, recorded in equity

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Basis of consolidation

- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in consolidated income statement
- Reclassifies the parent company's share of components previously recognised in other comprehensive income to
- consolidated income statement or retained earnings, as appropriate.

The subsidiaries of the group are as follows:

Name of the company	Country of incorporation	Equity interest 2012	Equity interest 2011	Principal activity
Directly held				
Kuwaiti German Holding Company K.S.C. Closed ("KGH")	Kuwait	53.13%	53.51%	Investing activities
Coast Investments Limited	British Virgin Islands	100%	100%	Investment services
Coast Holding Corporation	USA	100%	100%	Investment services
Lujain Group of Economic & Management Consultancy	Kuwait	51%	51%	Management consultancy
Held through KGH				
Weinig International A.G.*	Germany	39.9%	40.2%	Manufacturing of wood processing machinery
JNW Middle East **	Kuwait	29.22%	29.43%	Cleaning of heat exchangers
Melius GmbH	Germany	100%	100%	Management consultancy
JNW Cleaning Solutions GmbH	Germany	100%	100%	Cleaning of heat exchangers

* The parent company holds direct equity interest of 12.37% and indirect equity interest of 52% through KGH resulting in effective equity interest of 39.9% (2011: 40.2%).

** KGH holds direct equity interest of 45% and indirect equity interest of 10% through JNW Cleaning Solutions

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

GmbH (100% owned by KGH) resulting in effective equity interest of 29.22% (2011: 29.43%) at parent company level.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

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.

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 income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in consolidated income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non controlling interest over the net identifiable assets acquired and liabilities assumed.

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Revenue recognition

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 the payment is being made. Revenue is measured at the fair value of the consideration received or receivable. The group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The group has concluded that it is acting as a principal in most of its revenue arrangements.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Revenue recognition (continued)

The following specific recognition criteria must also be met before revenue is recognised:

- Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.
- Revenue from rendering of services is recognised when the outcome of the transaction can be estimated reliably by reference to the stage of completion of the transaction at the reporting date. Where the outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.
- Revenue from production orders are recognised on a pro-rata basis at reporting date, based on the percentage of completion of the order. The percentage of completion applicable is calculated using the cost-to-cost method (costs incurred to date in relation to the expected total costs). The revenues from the order constitute the contractual price and follow-up price as agreed to in writing with the customer.
- Management fees, relating to fiduciary client portfolios, fund management and custody services, are recognised over the period of time when these services are rendered.
- Interest income is recognised using the effective yield method taking into account the principal outstanding and the rate applicable.
- Dividend income is recognised when the right to receive payment is established.

Taxation

National Labour Support Tax (NLST)

The parent company calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the period. As per law, income from associates and subsidiaries, cash dividends from listed companies which are subjected to NLST have been deducted from the profit for the year.

Kuwait Foundation for the Advancement of Sciences (KFAS)

The parent company calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the 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.

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.

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. Income tax payable on taxable profit ('current tax') is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the group operates. Deferred tax assets are recognised for deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent it is probable that future taxable profits will be available to utilise this. Deferred tax liabilities are recognised for taxable temporary differences. Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and financial assets available for sale. The group determines the classification of its financial assets at initial recognition.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Financial assets (continued)
Initial recognition and measurement (continued)

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is received from or delivered to the counterparty. Changes in fair value between the trade date and settlement date are recognised in the consolidated income statement or in consolidated statement of comprehensive income through cumulative changes in fair values in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

The group's financial assets include cash and bank balances, money at call and short notice, trade and other receivables, financial asset carried at fair value through profit and loss, financial asset available for sale and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied.

The group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the group may elect to reclassify these financial assets. The reclassification to loans and receivables, financial assets available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Financial assets available for sale

Financial assets available for sale include equity securities. Equity investments classified as available for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Financial assets (continued)
Subsequent measurement (continued)
Financial assets available for sale (continued)

After initial measurement, financial assets available for sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated income statement, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated income statement. Financial assets available for sale whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. Interest earned whilst holding financial assets available for sale is reported as interest income using the effective interest rate method.

The group evaluates whether the ability and intention to sell its financial assets available for sale in the near term is still appropriate. When the group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available for sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to consolidated income statement over the remaining life of the investment using the effective interest rate method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated income statement.

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 measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement.

Derecognition of financial assets

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

• The rights to receive cash flows from the asset 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 the risks and rewards of the asset, but has transferred control of the asset.

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

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Financial assets (continued)
Derecognition of financial assets (continued)

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

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Impairment of financial assets

The group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the consolidated income statement.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Financial assets (continued)
Impairment of financial assets (continued)
Financial assets carried at amortised cost (continued)

Financial assets available for sale
For financial assets available for sale, the group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the 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. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement.
Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the consolidated income statement.

Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss and loans and borrowings. The group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

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

Subsequent measurement
The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement. Financial liabilities designated upon initial recognition at fair value through profit or loss are so designated at the initial

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Financial liabilities (continued)
Subsequent measurement (continued)
Financial liabilities at fair value through profit or loss (continued)

date of recognition, and only if criteria of IAS 39 are satisfied. The group has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated income statement.

Derecognition of financial liabilities
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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

Offsetting
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.

Fair value
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 28.

Cash and cash equivalents
For purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand and bank balances, short term deposits, money at call and short notice with maturities upto three months from the date of placement, net of outstanding overdraft, if any.

Derivatives
Derivative instruments are initially recognised in the consolidated statement of financial position at cost (including transaction costs) and subsequently measured at their fair value.

The group enters into derivative financial instruments including foreign exchange forward contracts.
Derivatives are stated at fair value. The fair value of a derivative includes unrealised gain or loss from marking to market the derivative using the valuation provided by the counter party. Derivatives with positive market values

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Derivatives (continued)

(unrealised gains) are included in other receivables and derivatives with negative market values (unrealised losses) are included in other payable and accruals in the consolidated statement of financial position. The resultant gains and losses from derivatives are included in the consolidated income statement.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. 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 income statement.

Freehold land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other property, plant and equipment as follows:

Buildings	20 – 70 years
Plant and machinery	5 – 30 years
Office equipment	3 – 21 years

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.

Leasehold improvements and fittings in rented property are depreciated over the duration term of the corresponding rent contracts or the period of useful life, if shorter.
The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets (other than goodwill) are carried at cost less any accumulated amortisation that is recognised on a straight line basis over their useful lives and any accumulated impairment losses. Internally generated intangible assets excluding capitalised developmental costs are not capitalised and expenditure is reflected in consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives (patent rights, technology and customer relationship) are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Intangible assets (continued)

with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset. The customer relationship, technology and development costs are amortised over a period of 10 years.

Intangible assets (trade mark) with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development costs
Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the group can demonstrate:
- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Investment in associates
The group's investment in its associate is accounted for under the equity method of accounting. An associate is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor separately tested for impairment.

The consolidated income statement reflects the group's share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. Distributions received from an associate reduce the carrying value of the investment. Unrealised gains and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the group, using consistent accounting policies.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Investment in associates (continued)

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

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

Investment property
Investment property is initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day to day servicing of investment property. Subsequent to initial recognition, the investment property is stated at fair value that is determined based on valuation performed by independent valuators periodically using valuation methods consistent with the nature and usage of the investment property. Gains or losses arising from change in the fair value of investment property are recognised in the consolidated income statement in the period in which they arise.

Investment property is derecognised when either it has been disposed off or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of assets is recognised in the consolidated income statement in the period of derecognition.

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

Inventories
Inventories are stated at the lower of cost or net realisable value. Cost is determined using the moving average method. The cost of finished goods and work in process comprises the cost of raw materials, consumables and supplies, direct labour costs, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The amount of impairment loss is recognised in the consolidated income statement under cost of materials. Reversals of such impairments resulting from an increase in the net sales value are recorded as a reduction in the cost of materials in the period in which the reversal occurs.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Group as lessee
Finance leases, which transfer to the group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant periodic rate of profit on the remaining balance of the liability. Finance charges are recognised in the consolidated income statement.

A leased asset is depreciated on a straight line basis over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

Group as lessor
Leases in which the group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Impairment of non-financial assets
The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated income statement in expense categories consistent with the function of the impaired asset, except for a property previously revalued and the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

General

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of; the amount that would be recognised in accordance with the general guidance for provisions above in accordance with 'IAS 37: Provisions, Contingent Liabilities and Contingent Assets', or the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition in accordance with 'IAS 18: Revenue'.

Employees' end of service benefits

Provision is made for amounts payable to employees under the Kuwaiti Labour Law, employee contracts and applicable labour laws in the countries where the subsidiaries operate. The expected costs of these benefits are accrued over the period of employment. The group also contributes to the government defined contribution plan for its Kuwaiti employees in accordance with the legal requirements in Kuwait.

One of the subsidiaries of the group has both defined benefit and defined contribution pension plans. The defined contribution plans are statutory pension insurance.

The defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependant on one or more factors such as age, years of service and compensation.

The liability recognised in consolidated statement of financial position in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments of unrecognized actuarial gains or losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds. These are denominated in the currency in which the benefit will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Past service costs are recognised immediately in the consolidated income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service cost are amortised on a straight line basis over the vesting period.
The contributions for defined contribution plans are recognised as employee benefit expense (under the heading of personnel expenses) when they are due. Prepaid contribution is recognised as an asset to the extent that of cash refund or a reduction in the future payments is available.

Treasury shares

Treasury shares consist of the parent company's own issued shares that have been reacquired by the group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are reissued, gains are credited to a separate account in equity, the treasury shares reserve, which is not distributable. Any realised losses are charged to the same account to the extent of the credit balance on that

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
Treasury shares (continued)

account. Any excess losses are charged to retained earnings then to the voluntary reserve and statutory reserve. Gains realised subsequently on the sale of treasury shares are first used to offset any provisional recorded losses in order of reserves, retained earnings and treasury share reserve account. No cash dividends are paid on these shares. The issue of stock dividend shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Other reserve
Other reserve is used to record the effect of changes in ownership interest in subsidiaries, without loss of control.

Foreign currency translation
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.

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the respective entity's functional currency spot rate of exchange ruling at the reporting date. Any resultant gains or losses are recognised in the consolidated income statement.

Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to respective entity's functional currency at the foreign exchange rates ruling on the dates that the values were determined. In case of non-monetary assets whose change in fair values are recognised directly in other comprehensive income, foreign exchange differences are recognised directly in other comprehensive income and for non-monetary assets whose change in fair value are recognised directly in the consolidated income statement, foreign exchange differences are recognised in the consolidated income statement.

As at the reporting date, the assets and liabilities of subsidiaries are translated into the parent company's presentation currency KD at the rate of exchange ruling on the reporting date, and their income statements are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that particular subsidiary is recognised in the consolidated income statement.

Any goodwill or fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the respective subsidiaries and translated at the rate of exchange ruling on the reporting date.

Fiduciary assets
Assets and related deposits held in trust or in a fiduciary capacity are not treated as assets or liabilities of the group and accordingly are not included in the consolidated statement of financial position.

Segment information
A segment is a distinguishable component of the group that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the parent company to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

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

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the parent company's shareholders.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

Significant accounting judgments, estimates and assumptions

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

Judgments

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

Impairment of financial assets available for sale

The group treats financial assets available for sale 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.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Operating Lease Commitments – group as lessor

The group has entered into commercial property leases on its investment properties portfolio. The group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Classification of investments

Judgments are made in the classification of financial instruments based on management's intention at acquisition as described in the respective accounting policies.

Estimation uncertainty and assumptions

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

Impairment losses of accounts receivable

An estimate of the collectible amount of 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.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
Significant accounting judgments, estimates and assumptions (continued)
Estimation uncertainty and assumptions (continued)

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

Useful lives of property, plant and equipment and intangible assets
The management determines the estimated useful lives of its property and equipment and intangible assets for calculating depreciation and amortisation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation and amortisation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment of investment in associats
After application of the equity method, the group determines whether it is necessary to recognise any impairment loss on the group's investment in its associated companies, at each reporting date based on existence of any objective evidence that the investment in the associate is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Fair values of assets and liabilities including intangible assets
Considerable judgement by management is required in the estimation of the fair value of the assets including intangible assets with definite and indefinite useful life, liabilities and contingent liabilities acquired as a result of business combination.

Revenue from production orders
Revenue from production orders is recognised in accordance with the percentage-of-completion method. In other words, revenues are stated on a pro-rata basis, according to the percentage of completion achieved to date. The percentage of completion as at reporting sheet date is calculated using the cost-to-cost method.

Taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective group company's domicile. As the group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Valuation of unquoted financial assets
Where the fair value of financial assets recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The determination of the cash flows and discount factors for unquoted equity financial assets requires significant estimation

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

3. SALES

	2012 KD '000	2011 KD '000
Sale of wood processing machines	79,677	12,001
Sale of tools	22,148	2,139
Rendering of services	2,662	731
Other sales	8,161	652
	112,648	15,523

4. NET INVESTMENT (LOSS) INCOME

	2012 KD '000	2011 KD '000
Realised loss on financial assets at fair value through profit or loss	(219)	(3,322)
Unrealised loss on financial assets at fair value through profit or loss	(82)	(3,001)
Net gain on sale of financial assets available for sale	171	530
Gain on partial sale of investment in an associate	-	1,243
Gain on fair valuation of previously held equity interest in subsidiaries (note 32)	-	13,040
	(130)	8,490

5. OTHER INCOME

	2012 KD '000	2011 KD '000
Utilisation of accruals	728	592
Release of accruals and deferrals	525	85
Gain on disposal of assets	806	102
Incentive fee (note 22)	-	1,581
Own work capitalised	1,628	347
Other income	1,243	1,150
	4,930	3,857

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

6. GENERAL AND ADMINISTRATIVE EXPENSES

	2012 KD '000	2011 KD '000
Wages and salaries	37,947	5,434
Social security and other pension costs	8,225	520
Commission expenses	4,922	694
Travel and transportation expenses	4,343	674
Maintenance expenses	1,173	201
Other expenses	9,886	1,100
	66,496	8,623

7. TAXATION

	2012 KD '000	2011 KD '000
National Labour Support Tax (NLST)	-	88
Taxation arising from overseas subsidiary companies	938	1,024
	938	1,112

Components of taxation arising from overseas subsidiaries are as follows:

	2012 KD '000	2011 KD '000
Current tax	27	395
Deferred tax (note 14)	911	629
	938	1,024

The tax rate applicable to the taxable subsidiaries is in the range of 17% to 38% (2011: 14.5% to 38.46%). The weighted average applicable tax rate for the year ended 31 December 2012 is 28% (2011: 28%).

For the purpose of determining the taxable results for the year, the accounting profit of the overseas subsidiary

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

7. TAXATION (continued)

companies were adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices of each overseas subsidiary companies jurisdiction.

8. BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

Basic and diluted (loss) earnings per share is calculated by dividing the (loss) profit for the year attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year less treasury shares.

	2012	*2011*
	KD '000	*KD '000*
(Loss) profit for the year attributable to shareholders of the parent company	**(6,757)**	4,155
	Shares	*Shares*
Weighted average number of outstanding shares	625,293,152	625,293,152
Weighted average number of treasury shares	(62,963,268)	(62,607,104)
Weighted average number of outstanding shares	562,329,884	562,686,048
Basis and diluted (loss) earnings per share attributable to the shareholders of the parent company	**(12) Fils**	7 Fils

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

9. PROPERTY, PLANT AND EQUIPMENT

	Land KD '000	*Buildings KD '000*	*Plant and machinery KD '000*	*Office equipment KD '000*	*Total KD '000*
Cost:					
As at 1 January 2012	1,053	23,594	3,670	3,653	31,970
Additions	-	34	766	1,093	1,893
Disposals	-	-	(46)	(612)	(658)
Exchange adjustment	-	122	343	481	946
As at 31 December 2012	**1,053**	**23,750**	**4,733**	**4,615**	**34,151**
Depreciation:					
As at 1 January 2012	-	(594)	(230)	(592)	(1,416)
Charge for the year	-	(798)	(950)	(1,409)	(3,157)
Disposals	-	-	22	355	377
Exchange adjustment	-	(60)	(45)	(25)	(130)
As at 31 December 2012	**-**	**(1,452)**	**(1,203)**	**(1,671)**	**(4,326)**
Net carrying value:					
As at 31 December 2012	**1,053**	**22,298**	**3,530**	**2,944**	**29,825**

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land *KD '000*	*Buildings* *KD '000*	*Plant and machinery* *KD '000*	*Office equipment* *KD '000*	*Total* *KD '000*
Cost:					
As at 1 January 2011	1,053	561	-	553	2,167
Arising on acquisition of subsidiaries (note 32)	-	17,552	3,675	2,877	24,104
Additions	-	18	132	312	462
Increase in fair value as a result of purchase price allocation ("PPA") exercise (note 10)*	-	6,077	-	-	6,077
Exchange adjustment	-	(614)	(137)	(89)	(840)
As at 31 December 2011	1,053	23,594	3,670	3,653	31,970
Depreciation:					
As at 1 January 2011	-	(561)	-	(461)	(1,022)
Charge for the year	-	(55)	(240)	(138)	(433)
Exchange adjustment	-	22	10	7	39
As at 31 December 2011	-	(594)	(230)	(592)	(1,416)
Net carrying value:					
As at 31 December 2011	1,053	23,000	3,440	3,061	30,554

* Includes non-controlling interest share of increase in fair value as a result of PPA exercise amounting to KD 2,015

10. INTANGIBLE ASSETS

	Goodwill	*Other intangible assets*					
		Trademark	*Patent rights*	*Technology*	*Customer relationship*	*Subtotal*	***Total***
	KD '000	*KD '000*	*KD '000*	*KD '000*	*KD '000*	*KD '000*	***KD '000***
Gross carrying amount:							
As at 1 January 2012	30,561	10,085	8,757	24,393	17,500	60,735	91,296
Additions	-	-	1,139	-	-	1,139	1,139
Disposals	-	-	(105)	-	-	(105)	(105)
Exchange adjustment	2,134	607	797	688	607	2,699	4,833
As at 31 December 2012	**32,695**	**10,692**	**10,588**	**25,081**	**18,107**	**64,468**	**97,163**
Accumulated mortisation:							
As at 1 January 2012	-	-	-	(646)	(419)	(1,065)	(1,065)
Charge for the year	-	-	(1,669)	(2,364)	(1,728)	(5,761)	(5,761)
Disposals	-	-	74	-	-	74	74
Exchange adjustment	-	-	(375)	(196)	(358)	(929)	(929)
As at 31 December 2012	-	-	**(1,970)**	**(3,206)**	**(2,505)**	**(7,681)**	**(7,681)**
Net carrying amount:							
As at 31 December 2012	**32,695**	**10,692**	**8,618**	**21,875**	**15,602**	**56,787**	**89,482**

10. INTANGIBLE ASSETS (continued)

	Goodwill	*Other intangible assets*					
		Trademark	*Patent rights*	*Technology*	*Customer relationship*	*Subtotal*	*Total*
	KD '000	*KD '000*	*KD '000*	*KD '000*	*KD '000*	*KD '000*	*KD '000*
Gross carrying amount:							
As at 1 January 2011	-	-	-	-	-	-	-
Arising on acquisition of KGH group	76,067	-	8,904	1,015	-	9,919	85,986
Transfer to intangible assets as a result of PPA	(33,993)	6,576		15,836	11,581	33,993	-
Transfer to property, plant and equipment on account of change in fair value as a result of PPA (note 9)	(4,062)	-	-	-	-	-	(4,062)
Transfer to inventories, on account of change in fair value as a result of PPA (note 16)	(4,956)	-	-	-	-	-	(4,956)
Non-controlling interest share of intangible assets	-	3,640		8,761	6,409	18,810	18,810
Exchange adjustment	(2,495)	(131)	(147)	(1,219)	(490)	(1,987)	(4,482)
As at 31 December 2011	30,561	10,085	8,757	24,393	17,500	60,735	91,296
Accumulated amortisation:							
As at 1 January 2011	-	-	-	-	-	-	-
Charge for the year	-	-	-	(690)	(448)	(1,138)	(1,138)
Exchange adjustment	-	-	-	44	29	73	73
As at 31 December 2011	-	-	-	(646)	(419)	(1,065)	(1,065)
Net carrying amount:							
As at 31 December 2011	30,561	10,085	8,757	23,747	17,081	59,670	90,231

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

10. INTANGIBLE ASSETS (continued)

Impairment testing of goodwill and intangible assets with indefinite lives

Goodwill acquired through business combinations and intangible assets with indefinite live 'patent rights' has been allocated to one CGU, namely, manufacturing of wood processing equipment.

Goodwill and Patent Rights
The carrying amount of goodwill and patent rights allocated to the cash-generating unit is disclosed under segment information (note 26). The recoverable amounts of the CGU has been determined based on a value in use calculation, using cash flow projections approved by management for 2012 and assuming an average annual growth rate of 1.5% for the four year period thereafter. The growth rate used does not exceed the average long term growth rate of the business unit in which the CGU operates. The pre-tax discount rate ranges from 8.18% to 8.25% (2011: Nil) applied to cash flow projections over a four years period.

The calculation of value in use for each segment unit is sensitive to the following assumptions:
- Gross margins;
- Discount rates;
- Market share assumptions
- Projected growth rates used to extrapolate cash flows beyond the budget period; and
- Inflation rates.

Gross margins:
Gross margins are based on past developments and expectations of the future market developments. These are increased over the budget period for anticipated market conditions.

Discount rates:
Discount rates reflect management's estimate of return on capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC).

Market share assumptions:
These assumptions are important because, as well as using industry data for growth rates, management assess how the unit's relative position to its competitors might change over the budget period.

Projected growth rates:
Assumptions are based on published industry research.

Inflation rates:
Estimates are obtained from published indices for countries where the group operates.

Sensitivity to changes in assumptions
With regard to the assessment of value in use of the CGU, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

11. INVESTMENT IN ASSOCIATES

Details of associates are set out below:

Name	Country of incorporation	Interest in equity % 2012	Interest in equity % 2011	Carrying value 2012 KD '000	Carrying value 2011 KD '000	Principal activity
Union Securities Brokerage Company - KSC (Closed)	Kuwait	**20.00**	20.00	4,754	4,697	Brokerage Company
Coast Investment Fund	Kuwait	**33.20**	33.20	13,892	13,265	Investing activities
Coast Pearl Fund	Kuwait	**22.26**	50.65	91	457	Investing activities
Aqar Real Estate Investments Company – KSC Closed)	Kuwait	**20.02**	20.02	4,526	4,871	Real estate activities
Rico GmbH	Germany	**23.73**	23.73	2,267	2,206	Manufacturing
				25,530	25,496	

Movement in the carrying amount of investment in associates is as follows:

	2012 KD '000	2011 KD '000
Carrying amount at 1 January	25,496	67,354
Additions	-	10,491
Transfer to subsidiaries	-	(50,093)
Disposal / redemptions during the year	(370)	(3,349)
Share of results	577	4,087
Impairment	-	(2,397)
Dividend	-	(1,092)
Cumulative change in fair value recognised directly in other comprehensive income	**(111)**	75
Exchange adjustment	(62)	420
Carrying amount at 31 December	**25,530**	25,496

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11. INVESTMENT IN ASSOCIATES (continued)

Investment in an associate with a carrying value of KD 4,526 thousand (2011: KD 4,871 thousand) has a fair value of KD 4,407 thousand (2011: KD 4,220 thousand) determined based on market bid price. Investment in associates with a carrying value of KD 13,983 thousand (2011: KD 13,721 thousand) has fair value of KD 13,983 thousand (2011: KD 13,721 thousand), which represents the fair value determined based on net asset value of associates because the underlying investments of associates are listed on the stock exchange.

As at the reporting date, the management of the parent company has assessed the carrying value of the associates. Based on their assessment, the management believes that there is no objective evidence or circumstances that indicate any impairment in the value of the investment in associates. Therefore, no impairment is required to be recognised in respect of these associates in the consolidated income statement (2011: impairment loss KD 2,397 thousand recorded in the consolidated income statement).

The following table illustrates the summarised financial information of the group's investment in associates:

	2012	*2011*
	KD '000	*KD '000*
Share of assets	22,836	24,705
Share of liabilities	(1,093)	(2,996)
Share of net assets	21,743	21,709
Share of results for the year	**577**	4,087

The carrying amount of the investment in associates includes goodwill of KD 3,787 thousand (2011: KD 3,787 thousand).

12. FINANCIAL ASSETS AVAILBLE FOR SALE

	2012	*2011*
	KD '000	*KD '000*
Quoted investments	7,970	9,327
Unquoted investments	16,734	15,975
	24,704	25,302

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12. FINANCIAL ASSETS AVAILBLE FOR SALE (continued)

Unquoted investments include investments in private equity funds amounting to KD 8,474 thousand (2011: KD 7,623 thousand) which are carried at net asset values as reported by the investment managers. Due to the nature of these investments, the net asset values reported by the investment managers represent the best estimate of fair values available for these investments.

At 31 December 2012, certain unquoted investments available for sale amounting to KD 8,216 thousand (2011: KD 8,297 thousand) are carried at cost due to the unavailability of reliable measures of their fair values.

Management has performed a review of investments to assess whether impairment has occurred in the value of these investments. Based on specific information, management has recorded impairment loss of KD 667 thousand (2011: KD 4,925 thousand) in the consolidated income statement for the year in respect of investments available for sale. Based on the latest available financial information, management is of the view that no further impairment is required as at 31December 2012 in respect of these investments.

During the year, the group earned dividend income of KD 967 thousand (2011: KD 2,041 thousand) on financial assets available for sale.

13. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2012	*2011*
	KD '000	*KD '000*
Trade accounts receivable		
– Non- current	1,458	893
– Current	14,529	15,385
	15,987	16,278
Advances and prepayments	411	135
Accrued income	343	352
VAT receivables	810	665
Other assets	3,307	4,692
	20,858	22,122

Non-current trade accounts receivable are discounted using an average interest rate of 3.05% (2011: 1.7%). The carrying amount therefore corresponds to the fair value.

As at 31 December 2012, trade accounts receivable at nominal value of KD 1,426 thousand (2011: KD 1,247 thousand) were impaired and totally provided.. Movement in the allowance for impairment of trade accounts receivable is as follows:

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13. ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

	Individually impaired	***Collectively impaired***	***2012 Total***	*2011 Total*
	KD '000	***KD '000***	***KD '000***	*KD '000*
As at 1 January	1,189	58	1,247	274
Arising on acquisition of subsidiaries	-	-	-	1,222
Charge for the year	428	(35)	393	(2)
Utilised during the year	(258)	-	(258)	(213)
Exchange adjustment	44	-	44	(34)
As at 31 December	1,403	23	**1,426**	1,247

At 31 December, the ageing of unimpaired trade accounts receivable is as follows:

	Neither past due nor impaired	*Past due but not impaired*			*Total*
		< 30 days	*30 to 90 days*	*> 90 days*	
	KD '000	*KD '000*	*KD '000*	*KD '000*	*KD '000*
2012	**10,526**	**1,413**	**2,286**	**1,762**	**15,987**
2011	9,489	1,227	2,274	3,288	16,278

Unimpaired trade accounts receivable are expected, on the basis of past experience, to be fully recoverable.

14. DEFERRED TAX ASSETS

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

14. DEFERRED TAX ASSETS (continued)

	2012 KD '000	*2011 KD '000*
Deferred tax assets	6,560	6,592
Offset with deferred tax liabilities	(4,236)	(3,816)
	2,324	2,776
Deferred tax liabilities	5,654	5,228
Offset with deferred tax assets	(4,236)	(3,816)
	1,418	1,412
Net deferred tax assets	**906**	1,364

The movement in net deferred tax assets is as follows:

	2012 KD '000	*2011 KD '000*
At 1 January	1,364	-
Arising on acquisition of subsidiaries	-	2,041
Exchange adjustment	453	(48)
Expense for the year (Note 7)	(911)	(629)
At 31 December	**906**	1,364

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 KD '000	*2011 KD '000*
Held for trading:		
Local securities – quoted	1,042	4,084
Designated:		
Local unquoted securities	2	2
Local unquoted mutual funds	-	1,096
Foreign unquoted mutual funds	267	264
Foreign quoted securities	2	2
	271	1,364
	1,313	5,448

The mutual fund investments are carried at net asset value provided by the fund manager. Due to the nature of these investments, the net asset value provided by the fund manager represents the best estimate of fair value available for these investments.

During the year, the group earned dividend of KD 185 thousand (2011: KD 975 thousand) on financial assets at fair value through profit or loss.

16. INVENTORIES

	2012 KD '000	*2011 KD '000*
Raw materials, consumables and supplies	9,175	9,918
Work in progress	5,482	6,316
Finished goods	10,023	8,760
Transfer as a result of PPA exercise (note 10)*	-	7,687
	24,680	32,681
Inventories arising from PPA consumed during the period	-	(7,687)
	24,680	24,994

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

16. INVENTORIES (continued)

* Includes non-controlling interest share of increase in fair value as a result of PPA exercise amounting to KD 2,731 thousand.

The amount of write-down of inventories recognised as an expense is KD 5,262 thousand (2011: KD 86 thousand) which is recognised in cost of inventories.

17. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances in the consolidated statement of financial position:

	2012 KD '000	2011 KD '000
Cash and bank balances	13,126	21,445
Money at call and short notice	8,002	4,834
Bank overdrafts	(639)	(4)
Cash and cash equivalents for the purpose of consolidated statement of cash Flows	**20,489**	26,275

The money at call and short notice represents deposits placed with reputed local and international financial institutions. These deposits yield interest at an average rate of 0.64% per annum (2011: 0.69% per annum) and mature within one month from the date of deposit.

18. SHARE CAPITAL

Share capital
Authorised, issued and paid-up capital consists of 625,293,152 shares (2011: 625,293,152 shares) of 100 fils per share (2011: 100 fils per share), which are fully paid up in cash.

Statutory reserve
In accordance with the Companies Law, no transfer has been made to statutory reserve, since losses have been incurred during the year. The statutory reserve is not available for distribution except in certain circumstances stipulated by Law.

Voluntary reserve
In accordance with the parent company's Articles of Association, 10% of the profit for the year attributable to shareholders of the parent company before NLST and Zakat is transferred to voluntary reserve. Such annual transfers may be discontinued by a resolution of the parent company's annual general meeting upon a recommendation by the Board of Directors. Voluntary reserve is available for distribution. No transfer has been made by the parent company during the year since the parent company has incurred losses during the year. There is no restriction on distribution of this reserve.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. SHARE CAPITAL (continued)

Treasury shares

	2012	2011
Number of shares	62,963,268	62,963,268
Percentage of issued shares	10.07%	10.07%
Market value (KD '000)	**2,424**	3,337

Reserves equivalent to the cost of the treasury shares held are not available for distribution.

As at 31 December 2012, the number of treasury shares has exceeded the threshold limit of 10% of the total issued and paid up shares. On 27 May 2012, the annual general assembly of the shareholders of the parent company approved to dispose the excess shares acquired subject to the approval of the regulatory authorities. Subsequent to the year end, on 27 March 2013, the parent company has obtained approval from regulatory authorities to sell the treasury shares.

Dividend

The Board of Directors has recommended neither a cash dividend nor bonus shares (2011: Nil) for the year ended 31 December 2012. This is subject to being approved by the shareholders' in the annual general assembly meeting.

19. BORROWINGS

	Non-Current		***Current***		***Total***	
	2012 KD '000	*2011 KD '000*	***2012 KD '000***	*2011 KD '000*	***2012 KD '000***	*2011 KD '000*
Unsecured bank loans	23,473	30,982	37,941	33,140	61,414	64,122
Secured bank loans	3,476	1,179	3,452	12,143	6,928	13,322
	26,949	32,161	**41,393**	45,283	**68,342**	77,444

A local bank has given a letter of guarantee against a loan payable to a foreign bank on behalf of the group against the borrowing of KD 2,635 thousand (2011: KD 2,635 thousand).

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19. BORROWINGS (continued)

Inventories with a carrying value of KD 4,292 thousand (2011: KD 10,687 thousand) are mortgaged as security against bank loan amounting to KD 4,292 thousand (2011: KD 10,687 thousand).

Currency	*Effective interest rate %*	*Security*	***2012 KD '000***	*2011 KD '000*
KD	4.5 – 6	Unsecured	59,951	62,451
U.S. Dollars	5 – 5.25	Secured (letter of guarantee)	2,489	2,465
U.S. Dollars	2.75 – 3.02	Unsecured	901	892
Euro	3.8-9.29	Unsecured	562	779
Euro	5.25- 8.25	Secured (inventory)	4,292	10,687
Other currencies	5.18- 6.13	Secured (letter of guarantee)	147	170
			68,342	77,444

20. END OF SERVICE BENEFITS

	2012 KD '000	*2011 KD '000*
Movement in the provision recognised in the consolidated statement of financial position is as follows:		
At 1 January	13,659	877
Increased due to acquisition of a subsidiary	-	13,070
Provided during the year	635	168
Employees' end of service benefits paid	(1,131)	(977)
Exchange adjustment	1,952	521
As at 31 December	**15,115**	13,659

The group has assumed responsibility for defined benefit plans for the employees of the group. As at the reporting date the status of the plan was as follows:

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

20. END OF SERVICE BENEFITS (continued)

	2012 **KD '000**	*2011* *KD '000*
Present value of the defined benefit obligation	20,989	15,895
Fair value of the plan assets	(2,381)	(2,113)
Carrying amount of unfunded obligations	18,608	13,782
Unrealised actuarial gains	(4,629)	(1,005)
	13,979	12,777

21. ACCOUNTS PAYABLE AND ACCRUALS

	2012 **KD '000**	*2011* *KD '000*
Trade payables	5,525	9,753
Advances received from customers	4,845	7,343
Promissory notes (Note 33)	3,143	4,111
Dividend payable	214	234
Commission payable	980	991
Accrued expenses	3,278	4,078
Other liabilities	9,494	5,340
	27,479	31,850

The entire trade payables are of short-term nature. The carrying amounts of the liabilities largely correspond to the fair values.

Non-current portion amounting to KD 7,047 thousand (2011: KD 8,043 thousand) includes promissory notes amounting to KD 3,143 thousand (2011: KD 4,111 thousand) and other liabilities amounting to KD 3,904 thousand (2011: KD 3,932 thousand). Since the liabilities carry floating interest rates the carrying value represents the fair value as at the reporting date

22. RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. major shareholders, associates, directors and key management personnel of the group, and entities controlled, jointly controlled or significantly influenced by such parties. All related party transactions are carried out on terms approved by the parent company's management.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

22. RELATED PARTY TRANSACTIONS (continued)

The related party balances and transactions included in the consolidated financial statements are as follows:

	Others KD '000	***2012 KD '000***	*2011 KD '000*
Consolidated statement of financial position			
Amount due to related parties - non-current liabilities	8,372	**8,372**	6,274
Amount due to related parties - current liabilities	-	**-**	8,630
Consolidated income statement			
Management fees	431	**431**	499
Incentive fee	-	**-**	1,581
Finance cost	140	**140**	12

Outstanding balances at the year-end are unsecured and carry interest at 1.72% to 2.84% per annum (2011: 2.5% to 3.05% per annum) and are repayable as per the terms of the contract. For the year ended 31 December 2012, the group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Key management compensation

The remuneration of key management personnel of the group during the year was as follows:

	2012 KD '000	*2011 KD '000*
Salaries and short-term benefits	**710**	356
Employees' end of service benefits	**220**	169
	930	525

23. OTHER ACCRUALS

	2012 KD '000	*2011 KD '000*
Other personnel accruals*	1,027	1,462
Warranties	1,705	1,826
Machine installation outstanding	601	656
Other accruals**	2,399	3,360
	5,732	7,304

23. OTHER ACCRUALS (continued)

* The other personnel accruals include accrual for the early retirement scheme amounting to KD 904 thousand (31 December 2011: KD 1,279 thousand).

** Other accruals include tax accruals amounting to KD 356 thousand (2011: KD 1,975 thousand) recorded by the foreign subsidiaries with respect to the accruals for corporation profits tax and trade tax.

24. FIDUCIARY ASSETS

Fiduciary assets comprise investments and funds managed by the group on behalf of the clients. As at the reporting date, total fiduciary assets managed by the group amounted to KD 246,205 thousand (2011: KD 265,114 thousand). Total income earned by the group from the fiduciary activities amounted to KD 664 thousand (2011: KD 869 thousand).

25. COMMITMENTS AND CONTINGENT LIABILITIES

At the reporting date, the group had capital commitments of KD 2,362 thousand (2011: KD 2,287 thousand) towards purchase of investments. Further the group had commitments on machines sold to external parties aggregating to KD 965 thousand (2011: KD 607 thousand) extending beyond one accounting period. The amount of capital commitments may be reduced by participation of other investors.

	2012 KD '000	*2011 KD '000*
Operating lease rental commitments		
Future minimum lease payments:		
Within one year	638	684
Within one to five years	1,007	776
More than five year	92	126
	1,737	1,586

Contingent liabilities:

As at 31 December 2012, the group had contingent liabilities in respect of warranty agreements amounting to KD 128 thousand (2011: KD 143 thousand) from which it is anticipated that no material liabilities will arise

26. SEGMENT INFORMATION

For management purposes, the group is organised into three main business segments based on internal reporting provided to the chief operating decision maker:

Manufacturing wood processing equipment - represents group's activities in manufacturing equipments for wood processing and other related services.

Investments - represents group's investment activities and other related services.

Others - represents other activities undertaken by the group which includes management consultancy services and cleaning of heat exchangers.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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26. SEGMENT INFORMATION (continued)

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on gross profit or loss for wood processing and others segments and return on investment for investment segment.

Year ended 31 December 2012	*Manufacturing of wood processing equipment KD '000*	*Investments KD '000*	*Others KD '000*	**Consolidated KD '000**
Revenue				
Total revenue	110,499	1,599	2,149	**114,247**
Result				
Segment profit	62,979	1,599	1,276	**65,854**
Interest income	368	5	67	**440**
Management fees	-	722	-	**722**
Other income	4,804	74	52	**4,930**
General and administrative expenses	(62,647)	(1,923)	(1,926)	**(66,496)**
Finance costs	(1,809)	(3,433)	(46)	**(5,288)**
Depreciation and amortisation	(8,688)	(37)	(193)	**(8,918)**
Foreign exchange loss	(660)	(34)	(14)	**(708)**
Impairment loss on financial assets available for sale	-	(667)	-	**(667)**
(Impairment loss) write back of impairment loss on accounts receivable	(428)	35	-	**(393)**
Loss before taxation	-	-	-	**(10,524)**
Taxation				**(938)**
Loss for the year				**(11,462)**
Total assets	141,237	62,594	36,154	**239,985**
Total liabilities	62,418	63,047	1,632	**127,097**
Other segmental information:				
Investment in associates (note 11)	-	25,530	-	**25,530**
Goodwill (note 10)	32,695	-	-	**32,695**
Other intangible assets – indefinite life (note 10)	10,692	-	-	**10,692**
Other intangible assets – definite life (note 10)	45,137	-	958	**46,095**
Share of result of associates (note 11)	-	577	-	**577**

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

26. SEGMENT INFORMATION (continued)

	Manufacturing of wood processing equipment	*Investments*	*Others*	Consolidated
	KD '000	*KD '000*	*KD '000*	KD '000
Year ended 31 December 2011				
Revenue				
Total revenue	15,299	15,593	224	31,116
Result				
Segment profit	4,929	15,593	174	20,696
Interest income	52	93	1	146
Management fees	-	942	-	942
Other income	2,231	1,581	45	3,857
General and administrative expenses	(7,157)	(1,259)	(207)	(8,623)
Finance costs	(122)	(4,078)	-	(4,200)
Depreciation and amortisation	(871)	(669)	(31)	(1,571)
Foreign exchange loss	-	(1)	-	(1)
Impairment loss on financial assets available for sale	-	(4,925)	-	(4,925)
Write back of impairment loss on accounts Receivable	-	2	-	2
Impairment loss on investment in associates	-	(2,397)	-	(2,397)
Profit before taxation				3,926
Taxation				(1,112)
Profit for the year				2,814
Total assets	154,943	95,820	2,579	253,342
Total liabilities	71,752	73,586	1,239	146,577

Other segmental information:

Capital expenditure	29,412	-	384	29,796
Investment in associates (note 11)	-	25,496	-	25,496
Goodwill (note 10)	30,561	-	-	30,561
Other intangible assets – indefinite life (note 10)	10,085	-	-	10,085
Other intangible assets – definite life (note 10)	49,684	-	966	50,650
Share of result of associates (note 11)	-	4,087	-	4,087

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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26. SEGMENT INFORMATION (continued)

Geographic information

The following tables present information regarding the group's geographical segments:

Total revenue	**2012 KD '000**	*2011 KD '000*
Kuwait	1,599	15,593
Europe	112,646	15,520
United States of America	2	3
	114,247	31,116

Non-current assets	**2012 KD '000**	*2011 KD '000*
Kuwait	40,206	41,904
Middle-East (other than Kuwait)	212	199
Europe	132,905	130,906
United States of America	141	2,383
	173,464	175,392

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the group's assets and liabilities. The maturities of assets and liabilities have been determined based on contractual maturity except for financial assets at fair value through profit or loss, financial assets available for sale, investment in associates, investment property, and property, plant and equipment which are based on management's estimate of liquidation / settlement of those financial assets.

The maturity profile of assets and liabilities at 31 December are as follows:

	0-3 months KD '000	*3-12 months KD '000*	***Total less than 1 year KD '000***	*More than 1 year KD '000*	***Total KD '000***
2012					
ASSETS					
Cash and bank balances	13,126		13,126	-	13,126
Money at call and short notice	8,002	-	8,002	-	8,002
Financial assets at fair value through profit or loss	-	1,313	1,313	-	1,313
Inventories	24,680	-	24,680	-	24,680
Accounts receivable and prepayments	306	19,094	19,400	1,458	20,858
Deferred tax assets	-	-	-	2,324	2,324
Financial assets available for sale	-	-	-	24,704	24,704
Investment in associates	-	-	-	25,530	25,530
Intangible assets	-	-	-	89,482	89,482
Investment property	-	-	-	141	141
Property, plant and equipment	-	-	-	29,825	29,825
	46,114	20,407	66,521	173,464	**239,985**
LIABILITIES					
Bank overdrafts	639	-	639	-	639
Accounts payable and other liabilities	297	20,135	20,432	7,047	27,479
Deferred tax liabilities	-	-	-	1,418	1,418
Other accruals	-	4,828	4,828	904	5,732
End of service benefits	-	-	-	15,115	15,115
Amount due to related parties	-	-	-	8,372	8,372
Borrowings	30,593	10,800	41,393	26,949	68,342
	31,529	35,763	67,292	59,805	127,097
Liquidity gap	14,585	(15,356)	(771)	113,659	**112,888**

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	0-3 months *KD '000*	*3-12 months* *KD '000*	*Total less than 1 year* *KD '000*	*More than 1 year* *KD '000*	*Total* *KD '000*
2011					
ASSETS					
Cash and bank balances	21,445	-	21,445	-	21,445
Money at call and short notice	4,834	-	4,834	-	4,834
Financial assets at fair value through profit or loss	-	5,448	5,448	-	5,448
Inventories	19,248	5,746	24,994	-	24,994
Accounts receivable and prepayments	441	20,788	21,229	893	22,122
Financial assets available for sale	-	-	-	25,302	25,302
Deferred tax assets	-	-	-	2,776	2,776
Investment in associates	-	-	-	25,496	25,496
Investment property	-	-	-	140	140
Intangible assets	-	-	-	90,231	90,231
Property, plant and equipment	-	-	-	30,554	30,554
	45,968	31,982	77,950	175,392	253,342
LIABILITIES					
Bank overdrafts	4	-	4	-	4
Accounts payable and accruals	80	23,727	23,807	8,043	31,850
Deferred tax liabilities	-	-	-	1,412	1,412
Other accruals	263	5,358	5,621	1,683	7,304
End of service benefits	-	-	-	13,659	13,659
Amount due to related parties	-	8,630	8,630	6,274	14,904
Borrowings	22,052	23,231	45,283	32,161	77,444
	22,399	60,946	83,345	63,232	146,577
Liquidity gap	23,569	(28,964)	(5,395)	112,160	106,765

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months), the carrying amount approximates their fair value. The fair values of financial instruments, with the exception of certain financial assets available for sale carried at cost (note 13), are not materially different from their carrying values.

The methodologies and assumptions used to determine fair values of financial instruments is described in fair value section of note 2.

Fair value hierarchy

The group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2012	***Level: 1*** ***KD '000***	***Level: 2*** ***KD '000***	***Level: 3*** ***KD '000***	***Total*** ***KD '000***
Financial assets at fair value through profit or loss:				
Quoted investments	1,044	-	-	1,044
Unquoted investments	-	2	-	2
Unquoted mutual funds	-	267	-	267
	1,044	269	-	1,313
Financial assets available for sale:				
Quoted investments	7,970	-	-	7,970
Unquoted investments	-	-	8,518	8,518
	7,970	-	8,518	**16,488**

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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28. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

31 December 2011	*Level: 1* KD '000	*Level: 2* KD '000	*Level: 3* KD '000	*Total* KD '000
Financial assets at fair value through profit or loss:				
Quoted investments	4,086	-	-	4,086
Unquoted investments	-	2	-	2
Unquoted mutual funds	-	1,360	-	1,360
	4,086	1,362	-	5,448
Financial assets available for sale:				
Quoted investments	9,327	-	-	9,327
Unquoted investments	-	-	7,678	7,678
	9,327	-	7,678	17,005
Financial assets at fair value				
Forward foreign exchange contracts	-	54	-	54
	-	54	-	54

During the years ended 31 December 2011 and 31 December 2012, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

The following table shows a reconciliation of the opening and closing amount of level 3 financial assets and liabilities which are recorded at fair value.

	As at 1 January **KD '000**	*Gain recorded in income statement for the year* **KD '000**	*Gain (loss) recorded in other comprehensive income* **KD '000**	*Net purchases, sales and settlements* **KD '000**	*Impairment recorded during the year* **KD '000**	*As at 31 December* **KD '000**
Financial assets available for sale – unquoted investments						
2012	**7,678**	**300**	**1,040**	**(399)**	**(101)**	**8,518**
2011	7,492	530	(131)	182	(395)	7,678

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At 31 December 2012

29. DERIVATIVES

In the ordinary course of business the group enters into various types of transactions that involve financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments traded by the group are forward foreign exchange contracts.

Forward foreign exchange contracts

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

The table below shows the fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of the credit risk.

	Positive fair value	*Negative fair value*	*Notional amount*		*Total*
			Up to 3 months	*3-12 months*	
	KD '000	*KD '000*	*KD '000*	*KD '000*	*KD '000*
Forward foreign exchange contracts					
2012	-	-	-	-	-
2011	-	54	568	30	598

30. RISK MANAGEMENT

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities.

The group's risk management is carried out by investment and management committee and focuses on actively securing the group's short to medium ter m cash flows by minimizing the potential adverse effects on the group's financial performance through internal risk reports. The parent company's board of directors are ultimately responsible for the overall risk management and for approving risk strategies and principles.

The group is exposed to credit risk, liquidity risk, market risk, prepayment risk and operational risk. Market risk is subdivided into interest rate risk, foreign currency risk and equity price risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the group's strategic planning process. There is no change in the risk management objectives and policies as compared to previous year.

30. RISK MANAGEMENT (continued)

30.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The group's credit policy and exposure to credit risk is monitored on an on-going basis. The group seeks to avoid undue concentrations of risks with individuals or groups of customers in specific locations or business through diversification of operating activities.

With respect to credit risk arising from the other financial assets of the group, which comprise bank balances and other assets, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Maximum exposure to credit risk

The group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial instruments. Where financial instruments are recorded at fair value, it represents the current maximum credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values. The group bears credit risk on bank balances and accounts receivables.

The group seeks to limit its credit risk with respect to banks by only dealing with reputable banks, and with respect to customers by monitoring outstanding receivables on an on-going basis. Derivative financial instrument contracts are only made with banks and financial institutions with a good credit rating.

The maximum credit exposure to a single counter party is KD 2,000 thousand (2011: KD 2,000 thousand), net of collateral or other credit enhancements.

The group's exposure to credit risk is limited to the carrying amounts of the following financial assets at the reporting date:

	2012	*2011*
	KD '000	*KD '000*
Bank balances	13,124	21,444
Money at call and short notice	8,002	4,834
Accounts receivables and prepayments	20,858	22,122
Gross maximum credit exposure	**41,984**	48,400

Risk concentration of maximum exposure to credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the group's performance to developments affecting a particular industry or geographic location.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

30. RISK MANAGEMENT (continued)
30.1 CREDIT RISK (continued)
Risk concentration of maximum exposure to credit risk (continued)

The group's gross maximum exposure to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the geographical regions and industry sectors as follows:

31 December 2012	***Kuwait and other Middle East countries***	***USA***	***Europe***	***Total***
	KD '000	***KD '000***	***KD '000***	***KD '000***
Bank balances	562	-	12,562	13,124
Money at call and short notice	7,389	11	602	8,002
Accounts receivable and prepayments	2,679	1	18,178	20,858
	10,630	12	31,342	**41,984**

31 December 2011	*Kuwait and other Middle East countries*	*USA*	*Europe*	*Total*
	KWD '000	*KD '000*	*KD '000*	*KD '000*
Bank balances	977	-	20,467	21,444
Money at call and short notice	4,563	11	260	4,834
Accounts receivable and prepayments	2,201	308	19,613	22,122
	7,741	319	40,340	48,400

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

30. RISK MANAGEMENT (continued)
30.1 CREDIT RISK (continued)
Risk concentration of maximum exposure to credit risk (continued)

31 December 2012

	Trading and manufacturing KD '000	***Banks and financial institutions KD '000***	***Others KD '000***	***Total KD '000***
Bank balances	12,582	542	-	13,124
Money at call and short notice	607	7,395	-	8,002
Accounts receivable and prepayments	18,178	2,680	-	20,858
	31,367	10,617	-	**41,984**

31 December 2011

	Trading and manufacturing KD '000	*Banks and financial institutions KD '000*	*Others KD '000*	*Total KD '000*
Bank balances	20.488	956	-	21.444
Money at call and short notice	4.600	234	-	4.834
Accounts receivable and prepayments	19,711	2,411	-	22,122
	44,799	3,601	-	48,400

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral accepted include quoted shares.

No collaterals are obtained in respect of other trade accounts receivable.

30.2 LIQUIDITY RISK
Liquidity risk is the risk that the group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, the parent company's management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents, and readily marketable securities.

The table below summarises the analysis of group's financial liabilities based on contractual undiscounted repayment obligations. The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. RISK MANAGEMENT (continued)
30.2 LIQUIDITY RISK (continued)

31 December 2012	***Within 3 months KD '000***	***3 to 12 months KD '000***	***Over 1 year KD '000***	***2012 Total KD '000***
Bank overdrafts	639	-	-	639
Accounts payable and accruals	297	20,135	7,047	27,479
Borrowings	30,990	11,550	29,719	72,259
Deferred tax liabilities	-	-	1,418	1,418
Employees end of service benefits	-	-	15,115	15,115
Amount due to related parties	-	-	8,372	8,372
Other accruals	-	4,828	904	5,732
	31,926	**36,513**	**62,575**	**131,014**
Capital commitments	**167**	**619**	**1,576**	**2,362**

31 December 2011	*Within 3 months KD '000*	*3 to 12 months KD '000*	*Over 1 year KD '000*	*2011 Total KD '000*
Bank overdrafts	4	-	-	4
Accounts payable and accruals	80	23,727	8,043	31,850
Borrowings	22,623	25,204	39,096	86,923
Deferred tax liabilities	-	-	1,412	1,412
Employees end of service benefits	-	-	13,659	13,659
Amount due to related parties	-	8,630	6,274	14,904
Other accruals	263	5,358	1,683	7,304
	22,970	62,919	70,167	156,056
Capital commitments	392	570	1,325	2,287

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

30. RISK MANAGEMENT (continued)
30.3 MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as foreign exchange rate, interest rate and equity prices, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all financial assets traded in the market.

Market risk is managed on the basis of pre-determined asset allocations across various asset categories, diversification of assets in terms of geographical distribution and industry concentration, a continuous appraisal of market conditions and trends and management's estimate of long and short term changes in fair value.

30.3.1 Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The group operates in the Kuwait and other Middle Eastern countries, the Europe, United States of America and China and is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to Euro and US Dollar. The group's consolidated financial position can be significantly affected by the movement in the KD/Euro exchange rates.

To mitigate the group's exposure to foreign currency risk, management works on maintaining a balanced exposure of assets and liabilities by currency to minimize fluctuations and enter into forward foreign exchange contracts, if needed, in accordance with the group's risks 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 exchange contracts may be entered into for significant long-term foreign currency exposures that are not expected to be offset by other currency transactions.

As at the reporting date, the group had the following significant net asset exposures denominated in foreign currencies:

	2012	*2011*
	KD '000	*KD '000*
Euro	**201,483**	208,282
US Dollar	**3,346**	2,935

The group's exposure to other foreign currencies is not material to the consolidated financial statements.

The foreign currency risk sensitivity analysis below calculates the effect of a reasonably possible movement of the currency exchange rate against the Kuwaiti Dinar, with all other variables held constant, on the profit (loss) and other comprehensive income of the group.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

30. RISK MANAGEMENT (continued)
30.3 MARKET RISK (continued)
30.3.1 FOREIGN CURRENCY RISK (continued)

2012

Currency	***Change in currency rate in % against KD***	***Effect on results KD '000***	***Effect on other comprehensive income KD '000***
Euro	5%	(7)	(10,067)
US Dollar	5%	(34)	(133)

2011

Currency	*Change in currency rate in % against KD*	*Effect on results KD '000*	*Effect on other comprehensive income KD '000*
Euro	5%	(4)	(10,410)
US Dollar	5%	(18)	(129)

The effect of other foreign currencies is not significant to the group's consolidated financial statements.

If the Kuwaiti Dinar weakens against the foreign currencies with all other variables being constant then this would have the opposite impact on the profit (loss) for the year and other comprehensive income.

30.3.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in interest rates. Interest rate risk arises from the possibility that changes in interest rates will affect the value of the underlying financial instruments. The group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The management has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods.

The group is exposed to interest rate risk on its interest bearing assets and liabilities which include cash and cash equivalents, financing of future trades by customers and borrowings.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates, with all other variables held constant.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2012

30. RISK MANAGEMENT (continued)
30.3 Market risk (continued)
30.3.2 Interest rate risk (continued)

	Increase of 1% Effect on results	
	2012	2011
	KD '000	KD '000
Euro	**(50)**	(116)
Kuwaiti Dinar	**(600)**	(625)
US Dollar	**(34)**	(34)

30.3.3 Equity Price risk

Equity price risk arises from changes in the fair values of equity investments. Equity price risk is managed by the direct investment department of the parent company. The unquoted equity price risk exposure arises from the group's investment portfolio. The group manages this through diversification of investments in terms of geographical distribution and industry concentration.

The effect on results and other comprehensive income as a result of a change in the fair value of the equity instruments held as financial assets at fair value through profit or loss and financial assets available for sale at 31 December 2012 due to a reasonable possible change in the equity indices, with all other variables held as constant is as follows:

		2012		2011	
Market indices	**Changes in equity price %**	**Effect on results KD '000**	**Effect on other comprehensive income KD '000**	Effect on results KD '000	Effect on other comprehensive income KD '000
Kuwait Index	-5%	**(48)**	**(634)**	(331)	(718)
Other GCC Indices	-5%	**(13)**	**-**	(13)	-

Sensitivity to equity price movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

30.4 PREPAYMENT RISK

Prepayment risk is the risk that the group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The group is not significantly exposed to prepayment risk.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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30. RISK MANAGEMENT (continued)

30.5 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

31. CAPITAL MANAGEMENT

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders value.

The group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the group may review the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

The group monitors capital using a gearing ratio, which is net debt divided by total capital attributable to shareholders of the parent company plus net debt. The group includes within net debt, borrowings less cash and cash equivalents. Capital includes equity attributable to the shareholders of the parent company less cumulative changes in fair values.

The capital structure of the group consists of the following:

	2012	*2011*
	KD '000	*KD '000*
Borrowings	68,342	77,444
Cash and cash equivalents	(20,489)	(26,275)
Net debt	47,853	51,169
Equity attributable to the shareholders of the parent company	51,717	52,415
Cumulative changes in fair value	95	636
Total capital attributable to the shareholders of the parent company	51,812	53,051
Capital and net debt	**99,665**	104,220
Gearing ratio	48%	49%

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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32. BUSINESS COMBINATIONS DURING 2011

During the previous year, on 21 November 2011, the group had obtained effective control over the financial and operating policies of one of it's associates namely Kuwaiti German Holding Company K.S.C. (Closed) ("KGH") due to change in the composition of board of directors without any change in the equity interest holding. As a result the group had reclassified the investment in KGH from associate to subsidiary and accordingly consolidated the financial statements of KGH and its subsidiaries from the effective date of control. No gain or loss was recognised upon re-measurement of previously held equity interest in KGH as its fair value approximated carrying value. Subsequently, on 27 December 2011, the group's equity interest in KGH had increased from 49.60% to 53.509% on account of acquisition of additional 3.909% shares in KGH. This change in the ownership interest (without a change of control) was accounted for as an equity transaction. The adjustments to reflect the changes in the carrying amounts of the controlling and non controlling interest in KGH were recorded under 'Other reserves' in accordance with International Financial Reporting Standard IAS 27: Consolidated and Separate Financial Statements.

As a result of KGH becoming the subsidiary of the group effective 21 November 2011, as noted above, the group's investment in Weinig classified as an associate was reclassified as a subsidiary. Accordingly, Weinig was consolidated as a subsidiary, from 21 November 2011, at equity interest of 64.37% (12.37% direct holding and 52% indirect holding through KGH).

As the business combination of Weinig was achieved in stages, the parent company re-measured its previously held equity interest in Weinig at the acquisition date fair value and recognised the resulting gain of KD 13,040 thousand, net of acquisition related expenses, in the consolidated income statement as "gain on fair valuation of previously held equity interest" under 'Net Investment Income'.

The above mentioned subsidiaries were consolidated based on the provisional values assigned to the identifiable assets and liabilities as on the acquisition date, since the management was in the process of determining the fair values of assets acquired and liabilities assumed.

During the year ended 31 December 2011, the group finalised the PPA exercise of Weinig and determined the final fair values of identifiable assets and liabilities. Based on that exercise, the group allocated a portion of the provisional goodwill to various identifiable tangible and intangible assets and accounted the residual value as goodwill. The fair value of other assets acquired and liabilities assumed, did not materially differ from the provisionally determined fair values.

NOTE TO THE CONSOLIDATED FINANCIAL STATEMENTS
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33. COMPARATIVE INFORMATION

1) Due to the acquisition of a subsidiary in the last quarter of 2011, there has been a significant increase in the revenue, cost of sales, general and administrative expense, finance costs and other items of consolidated income statement. Accordingly the comparative amounts as shown in the consolidated income statement, consolidated statement of comprehensive income and the related notes are not comparable.

2) The non-current portion of amounts due to related parties include Promissory notes to the extent of KD 3,377 thousand that was classified as Accounts payable and accruals in the consolidated statement of financial position as at 31 December 2011. This amount has been reclassified as Amounts due to related parties to conform to the current year's presentation with no effect on the reported profit or equity.