



# 2012

Annual Report  
ACICO INDUSTRIES Co.



BUILDING ON SOLID FOUNDATIONS





بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



**ACICO**

**BUILDING ON SOLID FOUNDATIONS**



**ACICO INDUSTRIAL**



**ACICO CONSTRUCTION**



**ACICO CEMENT**



**ACICO REAL ESTATE**



**ACICO REAL ESTATE  
HOTELS**





H.H. Sheikh Sabah Al Ahmad Al Jaber Al Sabah  
Prince of the State of Kuwait



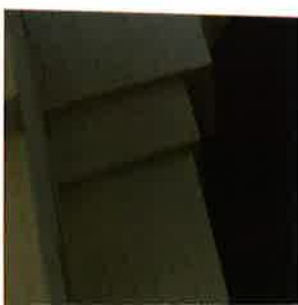
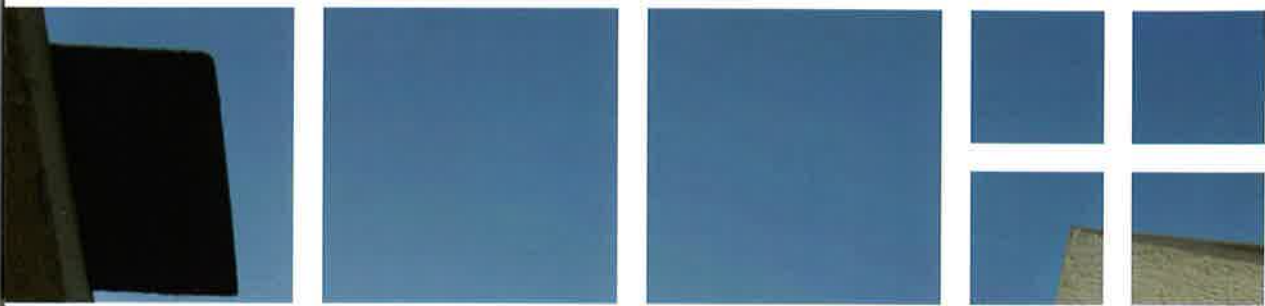
H.H. Sheikh Nawaf Al Ahmad Al Jaber Al Sabah  
Crown Prince of the State of Kuwait





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## BOARD OF DIRECTORS

**Abdulaziz Ahmad Al-Ayoub**  
Chairman

**Ghassan Ahmad Saud Al-Khaled**  
Vice Chairman & Managing Director

**Walid Ahmad Saud Al-Khaled**  
Board Member

**Faisal Yousef Al-Majed**  
Board Member

**Ahmad Faisal Sayid Abdul Wahab Al-Refaie**  
Board Member

**Ahmad Ghassan Ahmad Saud Al-Khaled**  
Board Member

**Faten Farouq Al-Naqeeb**  
Board Member

## VISION

ACICO Industries Company aspires to become a universally recognized trademark by means of the company values through diversification of activities and self-reliance, and achieve our promises under well-established plan and without affecting quality.



## MISSION

Achieving growth and integrated development through maintaining the quality of our products and deliver them on time and building constant, confident and lifelong partnerships.

## VALUES

**Corporate Culture:** Diversity and continued development, transparency, teamwork and integrity.

**Performance:** Our ethics navigate our day to day lives to deliver expected qualities of products and services.

**Spirit and future Ambitions:** Achieve long term growth and raise the return on shareholder's equity.



## CHAIRMAN'S MESSAGE



On behalf of the Board of Directors and on behalf of myself, I have great pleasure to meet with you again to present the financial statements of the fiscal year ending December 31, 2012.

During last year, we managed to accomplish and make profits which we are all proud of. Thanks to the efforts of the executive management team which always seeks to meet the objectives of our respectful shareholders.

We are aware that our diverse operating sectors have become a main pivot for the economic and social renaissance in the Arabian Gulf region. This imposes an additional responsibility for us to achieve more success and accomplishments not only at the industrial level but across all sectors as well.

What distinguish ACICO are the integrated operating sectors which are the cornerstone for a number of projects being implemented locally and regionally. Furthermore, The company proved its ability to handle huge number of projects at a high level of professionalism which motivated us to move forward to glean more successes.

From a financial viewpoint and by looking at the financial statements of the fiscal year ending 31st December 2013, ACICO positively reflected the success of its operating activities in the current market volatility through its well capitalized balance sheet and accelerating growth strategy. Our financial statements for 2012 showed that annual revenues scored KWD 35.223 million (KWD 34.416 million in 2011). In 2012, our net profits scored KWD 2.641 million (Only KWD 1.909 million for 2011). Likewise, ACICO assets rose from KD 241.567 million in 2011 to KWD 242.445 million in 2012. Thus ASICO' earning per share (EPS) scored 10.66 fils (7.70 fils in 2011).

The Board of Directors members and I are honored to congratulate you for these very positive results of your company in 2012. We pledge to achieve more and more successes in 2013.

**Abdul Aziz Ahmad Al Ayoub**  
Chairman





# ACICO INDUSTRIES COMPANY PROFILE

ACICO is a Kuwaiti fast growing industrial company whose products meet essential necessities and requirements of modern life including building materials.

The strong elaborate inception of ACICO Industries ensured fertile soil for success as the company passed through significant phases since its incorporation by establishing an aerated concrete plant in parallel with executing a large number of residential, governmental and commercial projects using aerated concrete products as core building materials, not only in Kuwait but also at the GCC and Arab levels, based on which the company's future investment strategies were determined.

The company is currently operating through its plants located in State of Kuwait, United Arab Emirates, Kingdom of Saudi Arabia and the State of Qatar to manufacture building units of reinforced and non-reinforced aerated concrete with special specifications including but not limited to light weight, thermal insulation, high fireproofing and environmental safety. The company's aspirations is not restricted to presence in these countries only; rather its expansion plans extend to being present in the Middle East and North Africa countries (MENA) according to an accurately assessed expansion strategy to maximize its future returns and profits.

ACICO Industries Company also produces ordinary Portland and resistant cement where the Ministry of Public Works, Public Authority for Housing Welfare and other governmental bodies have approved ACICO Cement Plant and products. ACICO Industries Company also entered the ready mix concrete market through a specialized plant allocated for this product line to satisfy increasing demand in the Kuwaiti market. ACICO is proud of having qualified manpower including skilled consultants, engineers and technicians under leadership of an executive top management with full acquaintance and extensive experience in the building and construction materials industry. All the company plants within the State of Kuwait and abroad are characterized by being equipped with high-end laboratories containing necessary instruments and equipment for conducting investigations and tests in accordance with local and international standards and specifications.

ACICO Industries Company was able to confidently enter the construction industry through its grade "1" company, ACICO Construction, as rated by Central Tenders Committee in State of Kuwait. ACICO Construction has managed to go beyond traditional methods in the construction industry. This is evident through its own construction system branded as ACICO Building System.

Furthermore, ACICO Industries Company enhanced its business in housing development sector through collaboration with associated companies specialized in real estate development, which is the residential real estate development arm operating in building residential units according to international advanced standards. Such collaboration will ensure absolute integration of the company reputation and realize a solid and tangible experience among real estate companies.

This helped ACICO Industries Company strongly enter the real estate market through the following real estate and hotel projects: Nassima Tower in the emirate of Dubai, ACICO Business Park in the emirate of Dubai; 5-star Radisson Royal Hotel in the Emirate of Dubai and Radisson Blu Resort Fujairah in the emirate of Fujairah.







Management Team

## MANAGEMENT ROLE

Challenging global economic progress, increase in competition and continuous technological advancements, ACICO's management capitalized on boosting current regional business operations to strengthen its core competencies for future expansive strategies.

Aligned with its values, ACICO Industries Company directed the performance of human capital into the two key success factors: financial performance and contribution to the organization. By valuing the management team's inputs and integrating them to ACICO strategic planning, they were able to address areas for improvements: investment requirement and projected ROI. Additionally, they worked on hunting new ideas and incorporating them into different business functions with integrity and self-accountability.



## CONSTRUCTION INDUSTRY

ACICO Industries Co. is specialized in processing selective manufacturing construction materials like the AAC, Ready Mix Concrete and Cement products. Furthermore, ACICO Industries Co. ensures the trading of strategic construction items like steel and other materials used for construction.

During 2012, ACICO responded to the market demands by producing AAC and Cement products which positively impacted our sales figures for the year. Moreover, ACICO increased Ready Mix production efficiency by adding nine new trans-mixers and a pump, in addition to a mobile central batching plant to be used in large scale project sites.

In the State of Kuwait, a number of projects were executed under the governmental and private categories in 2012. For governmental projects, ACICO Construction Co. attained three contracts which are related to the following ministries:

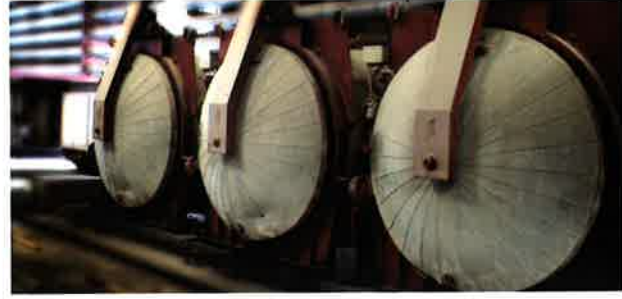
- Ministry of Health: Maintenance of Farqaniya Hospital
- Ministry of Awqaf: Maintenance of Mosques in Hawally and in Mubarak Al Kabir
- Ministry of Defence: Raised a VIP Building at UM Al Roos

For private projects, ACICO Construction Co. completed a number of Residential, Services and Industrial projects. Under Residential, a number of villas and chalets in various areas were completed. Likewise, buildings such as the extension of several schools were executed under the Services private projects, and cement plant expansion were completed under the Industrial private projects.

The Construction sector in the GCC region significantly contributes to the overall GDP. Future anticipations supported by Deloitte research on GCC construction sector shows that between 2010 and 2015, KSA and Bahrain will jointly spend on building 100,000 housing units. Consequently, Kuwait will be obtaining the largest return to its country's GDP with 70,000 housing units to be constructed by 2015 along with the contribution of public housing projects.



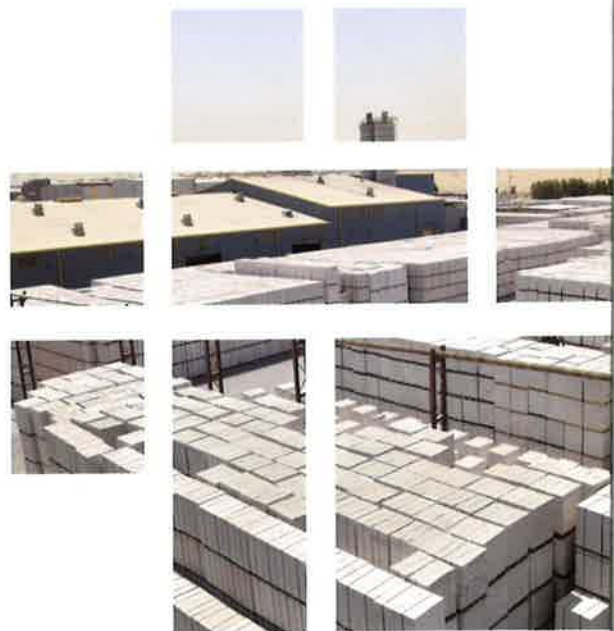




Construction industry across the GCC region has transferred from small and simple to massive and multifaceted designs throughout the years, the following are the drivers that have led to such growth levels:

1. Increase in Construction Spending- by 2015, Kuwait will allocate USD 168 billion on construction, similarly UAE will seize USD 623 billion, KSA will hold USD 629 billion, Qatar will add USD 226 billion, Oman will spend USD 103 billion and Bahrain will invest USD 52 billion on construction projects.
2. Growing Population– the GCC will expect an increase of 8.5 million people between the years 2011 and 2016, and the majority comes from KSA with an increase of 5.1 million people. Qatar will continue its surge in expat population due to their upcoming future events: Qatar National Development Strategy (NDS) by the year 2016; and World Cup Preparations by the year 2022.
3. Strong Economic Outlook – Gross Domestic Product's growth at constant prices attributed from the construction industry will derive an estimated compounded aggregate gross return (CAGR) of an average of 4.75% across Kuwait, UAE, KSA, Oman, Bahrain and Qatar by 2015.
4. Volatility in Prices of Building Materials – the cost of material and labor rates would both increase by 4% in 2015. Accordingly, tender prices would increase by 5% in 2015, mainly in UAE, KSA and Qatar.

Therefore, as a leading company in producing construction material and for being a construction contractor in multidiscipline projects, ACICO's sphere of activities in Kuwait, Saudi Arabia and UAE will soon expand its construction and industrial developments into the rest of the GCC.





Radisson Blu, Fujairah



## HOSPITALITY INDUSTRY



By looking at the revenues generated from the hospitality industry and the research information which supports the projected tourism in UAE, this will positively affect the revenue stream of Radisson Blu Fujairah which exists in Fujairah city.

Likewise, ACICO Hotels managed to lead with its Radisson Royal Hotel and Nasima Tower Furnished Apartments which are located in Dubai; within a walking distance of several nearby attractions offering guests sleek accommodation with stunning views of Sheikh Zayed Road - the hub of Dubai city.

Future anticipations are quite positive in the GCC region; according to Alpen Capital research, revenue generated from the GCC hospitality industry is expected to reach an estimated value of \$27 billion in 2015. This stream of revenue is sourced from several factors, with UAE and KSA presenting the largest stake jointly sharing 87% of sales in the hospitality sector by the year 2015.

Focusing on UAE, the following factors on which revenue generation will be obtained are sourced from:

1. Tourism - 22.6% of total number of regional tourism will be derived from UAE, which is estimated to reach 12 million tourists in 2015.
2. Room Supply - 25% of total UAE hotel rooms reaching an estimated 107 thousand room stocks planned for development in 2015.
3. Leisure and Business Travelers - according to Business Tourist Receipts in Dubai, Business Travelers will derive an estimated value of \$10.99 billion in 2015.
4. Economic Progression - UAE Gross Domestic Product in 2015 is estimated to be \$348 billion which will be derived from \$6.5 billion of total travel and tourism services with 1.6 % increase in size of population and an estimated value of \$12.12 billion from overnight visitor's arrivals.

Therefore, considering ACICO Industries Co. a private business entity owning valued hotels in the UAE, it will significantly benefit from the projected growing touristic activities in UAE, with Dubai being the center of advancement and modernization in the GCC region.



## SOCIAL RESPONSIBILITY



ACICO Industries Company contributions towards the community in the market in which it operates has showed continuous activities in major local and regional events, such as but not limited to:

1. Dubai Cares

ACICO Industries Company donated 1,000,000 AED to “Dubai Cares” which is a philanthropic establishment that aims to reach out to children in developing countries to provide them with primary education as a weapon against poverty.

2. The Biggest Inflatable Billboard System

ACICO Industries Company contributed to the UAE’s achievements reception gathering program “The Biggest Inflatable Billboard System” by indicating our support towards the charity partner with Autism Trust Foundation as a strategic partnership.

3. Kuwait Autism Center

ACICO Industries Company responded to the Kuwait Autism Center request – which operates under the Ministry of Awqaf and the Islamic Affairs in Kuwait – to handle the project for the sake of social welfare and handicapped children by forgoing half a million KWD and building the project at cost.

4. Engineering Support to Kuwait University Students

ACICO Industries Company contribution towards the educational aspect in Kuwait was highly observed when it provided its engineering consultation and financial support to motivate the Engineering students at Kuwait University to accomplish their graduation project.

5. Environmental Safety

ACICO Industries Company ensures a waste management policy that would preserve the environment to make it an ideal place for citizens to live in.

6. Ministry of Education

ACICO Construction executed more than 75 educational buildings in different schools at a space of 80,000 m<sup>2</sup> within two – three months per project with full facilities, at a fixed cost before the start of the new academic year, as per Ministry of Education request.



## RESTRUCTURING



ACICO Industries Company is constantly working on developing new activities that add value to its overall services. Such activities are attributed to different business divisions which work under a defined goal of enhancing the quality standards of our goods and services.

### **CUSTOMER SERVICE**

ACICO Industries Company added a quality evaluation system in the call center to conduct an information collection method which is obtained from the end user. In order to fulfill the client's needs at an exceptional level, our customer service agents will communicate the feedback forms to the market research analysts to analyze and report the outcomes to the engineering technical support and consultancy for the different phases of project development as well as for ensuring after service satisfaction. Supported by quality control at a local and regional scale; the customer service function enhances our marketing tools and activities by contributing the client's feedback study to the decision making process and strategic planning procedures.

### **LOGISTIC ADMINISTRATIVE DEPARTMENT**

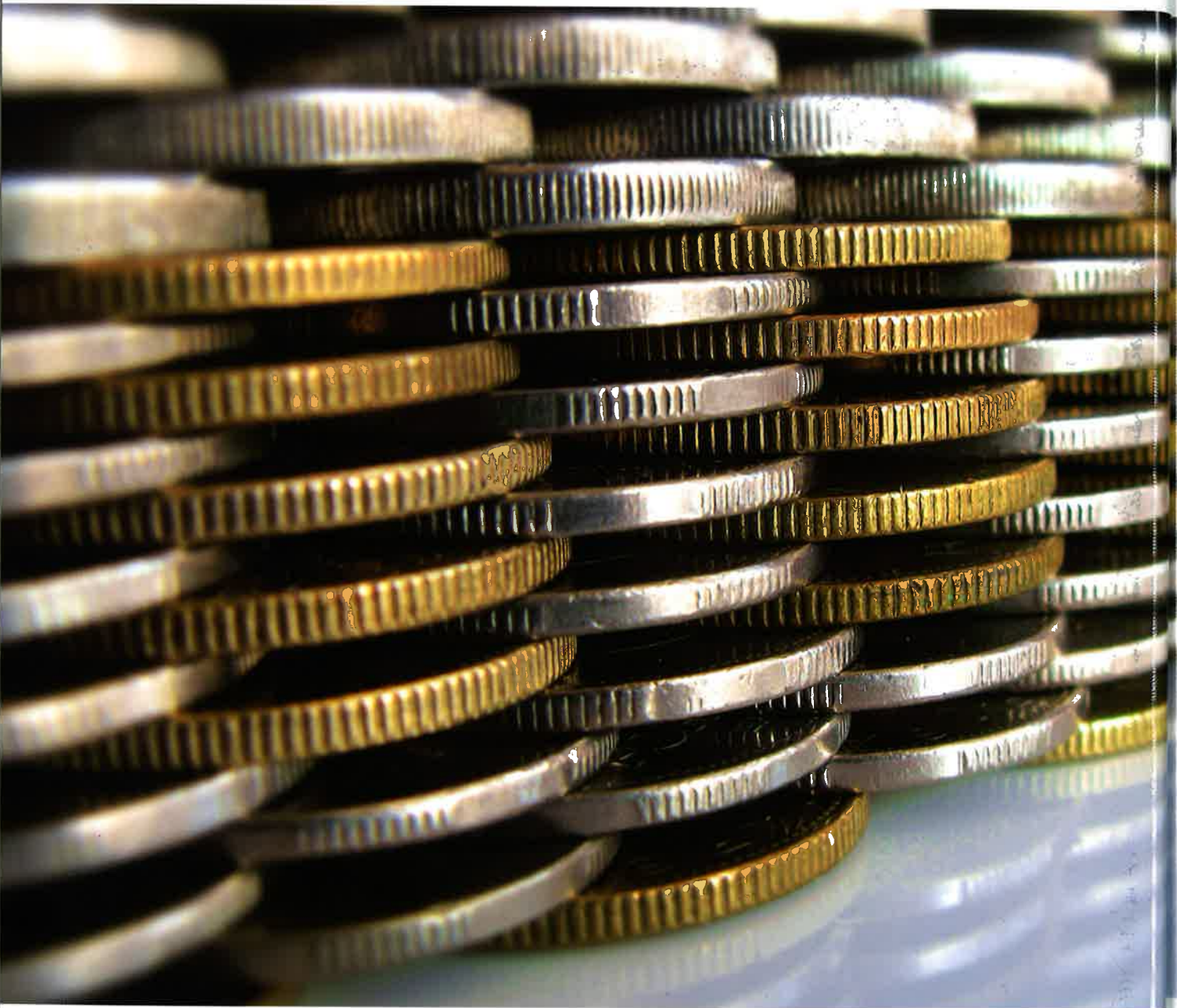
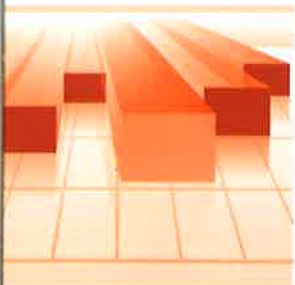
ACICO Logistics Department transformed its function into the recent trading name of ACICO Logistics for Cargo; which is a private business entity wholly owned by ACICO Industries Co.. ACICO Logistics for Cargo operates internally (by serving ACICO sectors) and externally (by contracting with other companies), by ensuring the transportation (by maintaining the quantity and quality) of products to the end user on time.

### **COMPLIANCE DEPARTMENT**

ACICO Industries Co., as a Kuwaiti closed shareholding company listed in the Kuwait Stock Exchange, developed a compliance department whose main objectives is to ensure that all the organization's departments are complying with the laws of all the regulatory authorities and to keep them informed of the current and future regulatory amendments.









## FINANCIAL STATEMENTS

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## INDEPENDENT AUDITORS' REPORT

The Shareholders  
ACICO Industries Co. - K.S.C. (Closed)  
State of Kuwait

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of ACICO Industries Co. - K.S.C. (Closed) (the Parent Company) and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ACICO Industries Co. - K.S.C. (Closed) as of December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Report on other Legal and Regulatory Requirements

Also in our opinion, the consolidated financial statements include the disclosures required by the Companies Law No. 25 for the year 2012 and the Parent Company's Articles of Association, as amended, and we obtained the information we required to perform our audit. In addition, proper books of account have been kept, physical stocktaking was carried out in accordance with recognized practice, and the accounting information given in the Director's Report is in agreement with the Parent Company's books. According to the information available to us, there were no contraventions during the year ended December 31, 2012 of either the Companies Law No. 25 for the year 2012 or of the Parent Company's Articles of Association, as amended, which might have materially affected the Group's financial position or results of its operations.



**Abdul Rahman Mubarak Al Qaoud**  
License No. 25-A

Abdul Rahman Al Qaoud & Partners

Public Accountants



**Dr. Shuaib A. Shuaib**  
License No. 33-A

RSM Al Bazie & Co.

**ACICO INDUSTRIES CO. - K.S.C. (CLOSED) AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31 ,2012**  
 (All amounts are in Kuwaiti Dinars)

<u>ASSETS</u>	<u>Note</u>	<u>2012</u>	<u>2011</u>
<b>Cash and cash equivalents</b>	3	<b>1,935,310</b>	2,337,111
Accounts receivable and other debit balances	4	<b>8,624,298</b>	9,462,124
Gross amount due from customers for contract work		<b>306,332</b>	55,127
Due from related parties	5	<b>6,085,061</b>	4,978,406
Inventories	6	<b>5,489,109</b>	4,611,238
Investments available for sale	7	<b>1,886,496</b>	2,007,996
Investment in associates	8	<b>12,529,808</b>	12,172,768
Investment properties	9	<b>171,852,550</b>	172,523,309
Right of utilization of leasehold		<b>473,907</b>	531,363
Fixed assets	10	<b>32,762,366</b>	31,887,875
Goodwill	11	<b>500,000</b>	1,000,000
Total assets		<b><u>242,445,237</u></b>	<u>241,567,317</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities:</b>			
Due to banks	12	<b>3,264,169</b>	7,494,726
Accounts payable and other credit balances	13	<b>9,881,176</b>	13,483,521
Gross amount due to customers for contract work		<b>430,298</b>	709,652
Due to related parties	5	<b>1,389,457</b>	3,161,166
Loans	14	<b>83,951,606</b>	67,841,036
Murabaha payable	15	<b>57,188,566</b>	63,755,402
Dividend payable to shareholders		<b>1,510,313</b>	2,088,128
Provision for end of service indemnity	16	<b>1,266,666</b>	1,097,331
Total liabilities		<b><u>158,882,251</u></b>	<u>159,630,962</u>
<b>Equity:</b>			
Share capital	17	<b>24,878,829</b>	23,694,122
Share premium	18	<b>24,426,446</b>	24,426,446
Statutory reserve	19	<b>8,939,021</b>	8,666,415
Treasury shares	20	<b>(432,774)</b>	(432,774)
Treasury shares reserve		<b>2,589,875</b>	2,589,875
Effect of change in other comprehensive income of associates		<b>(125,044)</b>	(286,932)
Foreign currency translation adjustments		<b>(396,707)</b>	(628,678)
Retained earnings		<b>19,607,593</b>	19,603,236
Equity attributable to shareholders of the parent company		<b><u>79,487,239</u></b>	<u>77,631,710</u>
Non-controlling interests		<b>4,075,747</b>	4,304,645
Total equity		<b><u>83,562,986</u></b>	<u>81,936,355</u>
Total liabilities and equity		<b><u>242,445,237</u></b>	<u>241,567,317</u>

The accompanying notes (1) to (35) form an integral part of the consolidated financial statements.



**Abdul Aziz Ahmad Al Ayoub**  
Chairman



**ACICO INDUSTRIES CO. - K.S.C. (CLOSED) AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
 (All amounts are in Kuwaiti Dinars)

	Note	2012	2011
Operating income	21	<b>35,223,055</b>	34,415,990
Operating cost	21	<b>(25,219,504)</b>	(23,379,734)
Net real estates income	22	<b>5,256,864</b>	4,730,325
Gross profit from operations		<b>15,260,415</b>	15,766,581
General and administrative expenses	23	<b>(3,764,073)</b>	(3,865,392)
Selling expenses		<b>(641,495)</b>	(623,410)
Depreciation and amortization	21	<b>(209,530)</b>	(164,384)
Income from operations		<b>10,645,317</b>	11,113,395
Group's share of results from associates	8	<b>193,548</b>	(850,893)
Impairment loss of goodwill	11	<b>(500,000)</b>	(500,000)
Net investment income	24	<b>493,147</b>	98,578
Other income	25	<b>114,979</b>	354,337
Finance charges	21	<b>(7,726,731)</b>	(7,891,581)
Provision no longer required		-	1,147
Provision for doubtful debts	4	<b>(54,300)</b>	(121,190)
Provision for slow moving inventory	6	-	(32,000)
Foreign exchange (loss) gain		<b>(24,470)</b>	395,126
Profit for the year before contribution to Kuwait Foundation for Advancement of Sciences, National Labor Support Tax, Contribution to Zakat and Board of Directors' remuneration		<b>3,141,490</b>	2,566,919
Contribution to Kuwait Foundation for the Advancement of Sciences	26	<b>(800)</b>	-
National Labor Support Tax	27	<b>(64,274)</b>	(55,181)
Contribution to Zakat	28	<b>(4,607)</b>	-
Board of Directors' remuneration	29	<b>(15,000)</b>	(15,000)
Net profit for the year		<b>3,056,809</b>	2,496,738
:Attributable to			
Shareholders of the parent company		<b>2,641,382</b>	1,908,812
Non-controlling interests		<b>415,427</b>	587,926
Net profit for the year		<b>3,056,809</b>	2,496,738
		<b>Fils</b>	<b>Fils</b>
Earnings per share	30	<b>10.66</b>	7.70

The accompanying notes (1) to (35) form an integral part of the consolidated financial statements.

ACICO INDUSTRIES CO. - K.S.C. (CLOSED) AND ITS SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED DECEMBER 31, 2012  
 (All amounts are in Kuwaiti Dinars)

	Note	2012	2011
<b>Net profit for the year</b>		<b>3,056,809</b>	2,496,738
Other comprehensive loss:			
Foreign currency translation adjustments		<b>(412,354)</b>	(164,280)
Change in fair value for investments available for sale	7	<b>(121,500)</b>	(155,053)
Reversal due to impairment loss of investments available for sale		<b>121,500</b>	226,196
Effect of change in other comprehensive income of associates	8	<b>161,888</b>	2,598
<b>Other comprehensive loss for the year</b>		<b>(250,466)</b>	(90,539)
Total comprehensive income for the year		<b><u>2,806,343</u></b>	<u>2,406,199</u>
Attributable to:			
Shareholders of the parent company		<b>3,035,241</b>	1,858,090
Non-controlling interests		<b>(228,898)</b>	548,109
Total comprehensive income for the year		<b><u>2,806,343</u></b>	<u>2,406,199</u>

The accompanying notes (1) to (35) form an integral part of the consolidated financial statements.

**ACICO INDUSTRIES CO. - K.S.C. (CLOSED) AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
 (All amounts are in Kuwaiti Dinars)

**Equity attributable to parent company's shareholders**

	Share capital	Share premium	Statutory reserve	Treasury shares	Treasury Shares reserve	Cumulative changes in fair value	Effect of change in other comprehensive income of associates	Foreign currency translation adjustments	Retained earnings	Total equity attributable to parent company's shareholders	Non-controlling interests	Total Equity
Balance as of December 31, 2010	22,565,831	24,426,446	8,468,516	(432,774)	2,589,875	(71,143)	(289,530)	(504,215)	21,267,405	78,020,411	4,175,576	82,195,987
Total comprehensive income (loss) for the year	-	-	-	-	-	71,143	2,598	(124,483)	1,908,812	1,858,090	548,109	2,406,199
Bonus shares – 5%	1,128,291	-	-	-	-	-	-	-	(1,128,291)	-	-	-
Cash dividends – 10%	-	-	-	-	-	-	-	-	(2,246,791)	(2,246,791)	-	(2,246,791)
Dividend to non controlling interest	-	-	-	-	-	-	-	-	-	-	(419,040)	(419,040)
Transfer to statutory reserve	-	-	197,899	-	-	-	-	-	(197,899)	-	-	-
Balance as of December 31, 2011	23,694,122	24,426,446	8,666,415	(432,774)	2,589,875	-	(286,932)	(628,678)	19,603,236	77,631,710	4,304,645	81,936,355
Total comprehensive income (loss) for the year	-	-	-	-	-	-	161,888	231,971	2,641,382	3,035,241	(228,898)	2,806,343
(Bonus shares – 5% (Note 31)	1,184,707	-	-	-	-	-	-	-	(1,184,707)	-	-	-
(Cash dividends – 5% (Note 31)	-	-	-	-	-	-	-	-	(1,179,712)	(1,179,712)	-	(1,179,712)
Transfer to statutory reserve	-	-	272,606	-	-	-	-	-	(272,606)	-	-	-
Balance as of December 31, 2012	24,878,829	24,426,446	8,939,021	(432,774)	2,589,875	-	(125,044)	(396,707)	19,607,593	79,487,239	4,075,747	83,562,986

The accompanying notes (1) to (35) form an integral part of the consolidated financial statements.



**ACICO INDUSTRIES CO. - K.S.C. (CLOSED) AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31 ,2012**  
 (All amounts are in Kuwaiti Dinars)

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Profit for the year before Contribution to Kuwait Foundation for the Advancement of Sciences, National Labor Support Tax, Contribution to Zakat and Board of Directors' remuneration	<b>3,141,490</b>	2,566,919
Adjustments:		
Depreciation	<b>1,721,768</b>	1,802,703
Amortization	<b>57,456</b>	57,456
Group's share of results from associates	<b>(193,548)</b>	850,893
Finance charges	<b>7,726,731</b>	7,891,581
Interest income	-	(672)
Provision for end of service indemnity	<b>291,836</b>	235,585
Gain on sale of fixed assets	<b>(24,632)</b>	(93,023)
Income from tawaroq	<b>(602,147)</b>	(324,774)
Change in fair value of investment properties	<b>703,700</b>	(1,335,617)
Foreign currency translation adjustments	<b>(505,952)</b>	(61,578)
Provision for doubtful debts	<b>54,300</b>	121,190
Provision for slow moving inventory	-	32,000
Provision no longer required	-	(1,147)
Impairment loss of investments available for sale	<b>121,500</b>	226,196
Impairment of goodwill	<b>500,000</b>	500,000
	<b>12,992,502</b>	12,467,712
Changes in operating assets and liabilities:		
Accounts receivable and other debit balances	<b>783,526</b>	(990,424)
Gross amount due from customers for contract work	<b>(251,205)</b>	(21,149)
Due from related parties	<b>(1,106,655)</b>	(413,745)
Inventories	<b>(877,871)</b>	1,350,100
Accounts payable and other credit balances	<b>(3,687,026)</b>	2,147,099
Gross amount due to customers for contract work	<b>(279,354)</b>	(915,795)
Due to related parties	<b>(1,771,709)</b>	(3,079,986)
Payment for end of service indemnity	<b>(122,431)</b>	(128,489)
Payment for National Labor Support Tax	-	(454,239)
Net cash generated from operating activities	<b>5,679,777</b>	9,961,084

ACICO INDUSTRIES CO. - K.S.C. (CLOSED) AND ITS SUBSIDIARIES  
 CONSOLIDATED STATEMENT OF CASH FLOWS (CONTD.)  
 FOR THE YEAR ENDED DECEMBER 31 ,2012  
 (All amounts are in Kuwaiti Dinars)

	<u>2012</u>	<u>2011</u>
<b>Cash flows from investing activities:</b>		
Paid for investment properties	(32,941)	(1,273,444)
Paid for investment in an associate	-	(5,581)
Paid for purchase of fixed assets	(2,506,796)	(2,057,196)
Proceeds from sale of fixed assets	27,093	162,475
Tawaroq income received	602,147	324,774
Redemption from investment available for sale	-	388,813
Interest income received	-	672
Net cash used in investing activities	<u>(1,910,497)</u>	<u>(2,459,487)</u>
<b>Cash flows from financing activities:</b>		
Net movement on due to banks	(4,230,557)	308,908
Net movement on loans	16,110,570	718,238
Net movement on Murabaha payable	(6,566,836)	759,833
Finance charges paid	(7,726,731)	(7,891,581)
Payment of cash dividends to shareholders	(1,757,527)	(1,497,523)
Net cash used in financing activities	<u>(4,171,081)</u>	<u>(7,602,125)</u>
Net decrease in cash and cash equivalents	(401,801)	(100,528)
Cash and cash equivalents at the beginning of the year	<u>2,337,111</u>	<u>2,437,639</u>
Cash and cash equivalents at the end of the year (Note 3)	<u>1,935,310</u>	<u>2,337,111</u>

The accompanying notes (1) to (35) form an integral part of the consolidated financial statements.

## **1. Incorporation and activities**

ACICO Industries Co. - K.S.C. (Closed) was incorporated authenticated at the Ministry of Justice – Real Estate Registration and Authentication Department under Ref. No. 16540 on June 23, 1990 and registered on Commercial register under Ref. No. 41903 dated July 17, 1991.

According to the shareholders' General Assembly meeting held on May 18, 2008, the name of the Company was changed from Aerated Concrete Industries Co. K.S.C. (Closed) to be ACICO Industries Co. K.S.C. (Closed). The amendment was registered in Ministry of commerce and Industry and the Commercial register on May 25, 2008.

The main objectives of the Company include the establishment of a factory for the production of all types and sizes of aerated concrete and non-concrete and all its construction requirements, import and export of all building materials. The Company is considered the sole agent in the Middle East for manufacturing 'Hebel' international products.

The Company's objectives also include owning, buying and selling real estates, land and lands for development for the benefit of the Company either inside or outside Kuwait, dealing in industrial companies' shares and bonds relating to the main objective of the Company for the benefit of the Company only either inside or outside Kuwait, preparing and submitting the studies and consultancy and also organizing the industrial exhibitions for the Company's projects.

The Company may have interests or participate in any aspect in other firms conducting similar activities or which may assist the Company in achieving its objectives in Kuwait or abroad. The Company may also acquire such firms or participate in their equity.

The parent Company's number of employees is 450 as at December 31, 2012 (2011 - 225).

On November 29, 2012, a Decree Law No. 25 of 2012 promulgating the Companies Law was published in the Official Gazette, and Companies already established at the time this law comes into effect shall adjust their circumstances in accordance with the provisions of this law within six months of it coming into force and as specified in the Executive Regulations.

The address of the Company's head office is Sharq – Ahmed Al-Jaber Street – Raed Center, 5<sup>th</sup> floor, P.O. Box 24079, Safat, 13101 - State of Kuwait.

The financial statements were authorized for issue by the Board of Directors on March 25, 2013. The Shareholders' General Assembly has the power to amend these financial statements after issuance.

## **2. Significant accounting policies**

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

### **a) Basis of Preparation**

The consolidated financial statements are presented in Kuwaiti Dinars and are prepared under the historical cost convention, except for the following material items that are stated at their fair value.

- \* Certain investments available for sale
- \* Investment properties



The accounting policies applied by the Group are consistent with those used in the previous year except for the changes due to implementation of the following new and amended International Financial Reporting Standards as of January 1, 2012:

**IFRS 7: Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amendment)**  
(effective July 1, 2011)

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

The adoption of above mentioned amendment did not have any material impact on the financial position or performance of the Group.

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions in the process of applying the Group's accounting policies. Significant accounting judgments, estimates and assumptions are disclosed in Note 2(w).

**Standards and Interpretations issued but not effective**

The following IASB Standards and Interpretations have been issued but are not yet effective, and have not yet been adopted by the Group:

**IAS 1 Presentation of items of other comprehensive income**

The amendments to IAS 1 require items of other comprehensive income to be grouped into two categories

- a) Items that will not be reclassified, subsequently to consolidated statement of income and
- b) Items that may be reclassified to consolidated statement of income when specific conditions are met. The amendments are effective for annual periods beginning on or after July 1, 2012.

**IAS 16 Property, plant and equipment**

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventories, otherwise if they meet definition of inventories as per IAS 2. The amendments are effective for annual periods beginning on or after January 1, 2013.

**IAS 28 Investments in associates and joint ventures.**

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. The revised standard becomes effective for annual periods beginning on or after January 1, 2013.

**IFRS 9 Financial Instruments:**

The standard, which will be effective for annual periods beginning on or after January 1, 2015, specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified entirely based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortized cost or fair value.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets

and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories

**IFRS 10 Consolidated Financial Statements (issued in May 2011)**

The new Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. It introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. This standard is effective for annual periods beginning on or after 1 January 2013.

**IFRS 12 Disclosure of Interests in Other Entities (issued in May 2011)**

The new Standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the entity’s financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after 1 January 2013.

**IFRS 13 Fair Value Measurement (issued in May 2011)**

The new Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013.

**b) Principles of consolidation**

The consolidated financial statements incorporate the financial statements of Acico Industries Company - K.S.C. (Closed) and the following subsidiaries:

Name of Subsidiaries	Country of incorporation	Percentage of holding	
		2012	2011
Ghassan Ahmed Sauod Al-Khaled & Co. – W.L.L. and its subsidiary	Kuwait	75%	75%
ACICO Arabia for General Trading & Contracting – W.L.L.	Kuwait	60%	60%
ACICO Construction K.S.C. (Closed)	Kuwait	75%	75%
ACICO Kuwait Company W.L.L.	Kuwait	99%	99%

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 subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. All inter-company balances and transactions, including inter-company profits and unrealized profits and losses are eliminated in full on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the Non-controlling shareholder’s share of changes in equity since the date of the combination.

Non-controlling interests are measured at either fair value, or at its proportionate interest in the identifiable

assets and liabilities of the acquiree, on a transaction-by-transaction basis.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. The carrying amounts of the group's ownership interests and non-controlling interests are adjusted to reflect changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interests are adjusted and fair value of the consideration paid or received is recognized directly in equity and attributable to owners of the Company. Losses are attributed to the non-controlling interest even if that results in a deficit balance. 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;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings as appropriate.

### **c) Financial instruments**

Financial assets and financial liabilities carried on the Statement of Financial Position include cash and cash equivalents, receivables, investments, due from / to related parties, bank borrowings and payables.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

#### **1) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, short-term bank deposit highly liquid with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### **2) Accounts receivable**

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of income.

#### **3) Investments**

The Group classifies its investments as available for sale investments. The classification depends on the purpose for which the investments were acquired and is determined at initial recognition by the management.

#### **Investments available for sale**

Investments available for sale are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the end of the reporting period.



Purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through income statement.

After initial recognition, investments available for sale are subsequently carried at fair value. The fair values of quoted investments are based on current bid prices. If the market for an investment is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Realized and unrealized gains and losses arising from changes in the fair value of investments available for sale are recognized in cumulative changes in fair value in consolidated statement of other comprehensive income.

Where investments available for sale could not be measured reliably, these are stated at cost less impairment losses, if any.

When an investment available for sale is disposed off or impaired, any prior fair value earlier reported in other comprehensive income is transferred to the consolidated statement of income.

An investment (in whole or in part) is derecognised either when: the contractual rights to receive the cash flows from the investment have expired; or the Group has transferred its rights to receive cash flows from the investment and either (a) has transferred substantially all the risks and rewards of ownership of the investment, or (b) has neither transferred nor retained substantially all the risks and rewards of the investment, but has transferred control of the investment. Where the Group has retained control, it shall continue to recognize the investment to the extent of its continuing involvement in the investment.

The Group assesses at the end of each reporting period whether there is an objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for investments available for sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on available for sale equity instruments are not reversed through the consolidated statement of income.

#### **4) Accounts payable**

Accounts payables include trade and other payables. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

#### **5) Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

**d) Gross amount due from (to) customers for contract work**

Gross amount due from (to) customers for contract work represents the net amount of costs incurred plus recognized profits, less the sum of recognized losses and progress billings for all contracts in progress. Cost comprises direct materials, direct labor and an appropriate allocation of overheads. For contracts where progress billings exceed costs incurred plus recognized profit (less recognized losses), the excess is included under liabilities.

**e) Inventories**

Inventories are valued at the lower of cost or net realizable value after providing allowances for any obsolete or slow-moving items. Costs comprises direct materials and direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on a weighted average basis.

Net realizable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses.

**f) Associates**

Associates are those enterprises in which the Group has significant influence which is the power to participate in the financial and operating policy decisions of the associate. The consolidated financial statements include the Group's share of the results and assets and liabilities of associates under the equity method of accounting from the date that significant influence effectively commences until the date that significant influence effectively ceases, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate.

The Group recognizes in its other comprehensive income for its share of changes in other comprehensive income of associate.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognized except to the extent that the Group has an obligation or has made payments on behalf of the associate.

Gains or losses arising from transactions with associates are eliminated against the investment in the associate to the extent of the Group's interest in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment in associates and is assessed for impairment as part of the investment. If the cost of acquisition is lower than the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities, the difference is recognized immediately in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining 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 retaining investment and proceeds from disposal is recognized in the consolidated statement of income.

After the application of the equity method, the Group determines whether it is necessary to recognize impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in 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 recognizes the amount in the consolidated statement of income.

**g) Investment properties**

Investment properties comprise completed property, property under construction or re-development held to earn rentals or for capital appreciation or both. Investment properties are initially measured at cost including purchase price and transaction costs. Subsequent to initial recognition, investment properties are stated at their fair value at the end of reporting period. Gains or losses arising from changes in the fair value of invest-

ment properties are included in the consolidated statement of income for the period in which they arise.

Property interest that is held under an operating lease is classified and accounted for as investment property when the property would otherwise meet the definition of an investment property and the lessee uses the fair value model.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Gains or losses arising on the retirement or disposal of an investment property are recognized in the consolidated statement of income.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

#### **h) Properties under development**

Properties acquired, constructed or in the course of construction for sale are classified as properties under development. Unsold properties are stated at cost. Sold properties in the course of development are stated at cost plus attributable profit/loss less progress billings. The cost of properties under development includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed. At that stage, the total asset value is eliminated from properties under development.

#### **i) Rights of utilization**

Leasehold right represents a long term lease agreement. The Group amortizes the lease value over the lease period for 20 years.

#### **j) Fixed assets**

The initial cost of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of fixed assets.

Fixed assets are stated at cost less accumulated depreciation and impairment losses. 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 included in the profit or loss for the period.



Land is not depreciated. Depreciation is computed on a straight-line basis over the estimated useful lives of other fixed assets as follows:

	years
Buildings	20
Machinery and equipment	3 - 20
Motor vehicles	3
Tools	3
Furniture and fixtures	3 - 5
Software	5

Tools and equipment for factory are depreciated based on units of production method.

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 from items of fixed assets.

**k) Goodwill**

Goodwill arising on an acquisition of a subsidiary or a jointly controlled entity represents the excess of the consideration transferred and the amount recognized for non-controlling interest over the fair value of the identifiable assets, liabilities and contingent liabilities as at the date of the acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Where there is an excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost, the Group is required to reassess the identification and measurement of the net identifiable assets and measurement of the cost of the acquisition and recognize immediately in the consolidated statement of income any excess remaining after that remeasurement.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investment in associates.

**l) Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**m) Provision for end of service indemnity**

Provision is made for amounts payable to employees under the Kuwaiti Labor Law in the private sector and employees' contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination at the end of the reporting period, and approximates the present value of the final obligation.

**n) Share capital**

Ordinary shares are classified as equity.

**o) Treasury shares**

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Group and not yet reissued or canceled. The treasury shares are accounted for using the cost method. Under the cost method, the weighted average cost of the shares reacquired is charged to a contra equity account. When the treasury shares are reissued, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings then reserves.

Gains realized subsequently on the sale of treasury shares are first used to offset any recorded losses in the order of reserves, retained earnings and the treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

Where any Group's company purchases the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs, is included in equity attributable to the Parent Company's equity holders.

**p) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all

contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### **Sale of goods**

Sales represent the total invoiced value of goods sold during the year. Revenue from sale of goods is recognized when significant risks and rewards of ownership of goods are transferred to the buyer.

#### **Construction contracts**

Revenue from construction contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. Profit is only recognized when the contract reaches a point where the ultimate profit can be estimated with reasonable certainty. Claims, variation orders and incentive payments are included in the determination of contract profit when approved by contract owners. Anticipated losses on contracts are recognized in full as soon as they become apparent.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

#### **Interest income**

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

#### **Dividend income**

Dividend income is recognized when the right to receive payment is established.

#### **Rent:**

Rental income is recognized, when earned, on a time apportionment basis.

#### **Gain on sale of investments**

Gain on sale of investments is measured by the difference between the sale proceeds and the carrying amount of the investment at the date of disposal, and is recognized at the time of the sale.

#### **Sale of properties under development:**

- When the agreement is within the scope of IAS 11 – construction contracts and its outcome can be estimated reliably, the Group recognizes the revenue by reference to the stage of completion of the contract activity in accordance with IAS 11 – construction contracts.
- When the agreement is within the scope of IAS 18 – Revenue, Group recognizes revenue at time of completion. When the significant risks and rewards of ownership of real estate are being transferred from Group at a single time.
- If the significant risks and rewards of ownership are transferred as when construction progresses, the Group recognize revenue by reference to the percentage of completion method.

If there is a doubt about the future economic benefits flowing to the Group, the Group recognizes revenue based on the installment percentage.



**q) Provisions**

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event and 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. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

**r) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**s) Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All other leases are classified as finance leases.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

**(i) Finance Lease**

**The Group as lessee**

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the consolidated statement of income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

**t) Foreign currency**

Foreign currency transactions are translated into Kuwaiti Dinars at rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currency as at the end of reporting period are retranslated into Kuwaiti Dinars at rates of exchange prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Translation differences on non-monetary items such as equity investments which are classified as investments at fair value through income statement are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity investments classified as investments available for sale are included in "cumulative changes in fair value" in the consolidated statement of other comprehensive income.

The assets and liabilities of the foreign subsidiary are translated into Kuwaiti Dinars at rates of exchange prevailing at the end of reporting period. The results of the subsidiary are translated into Kuwaiti Dinars at rates approximating the exchange rates prevailing at the dates of the transactions. Foreign exchange differences

arising on translation are recognized directly in the consolidated statement of income. Such translation differences are recognized in the consolidated statement of income in the period in which the foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### **u) Contingencies**

Contingent liabilities are not recognized but disclosed in the consolidated financial statements except when the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

#### **v) Segment reporting**

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs costs. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is identified as the person being responsible for allocating resources, assessing performance and making strategic decisions regarding the operating segments.

#### **w) Critical accounting estimates and judgments**

The Group makes judgments, estimates and assumptions concerning the future. The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from the estimates.

##### **a) Judgments**

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognized in the consolidated financial statements.

##### **(i) Revenue Recognition**

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The determination of whether the revenue recognition criteria as specified under IAS 18 are met requires significant judgment.

##### **(ii) Determination of contract cost**

Determination of costs which are directly related to the specific contract or attributable to the contract activity in general requires significant judgment. The determination of contract cost has a significant impact upon revenue recognition in respect of long term contracts. The Group follows guidance of IAS 11 for determination of contract cost and revenue recognition.

##### **(iii) Provision for doubtful debts and inventory**

The determination of the recoverability of the amount due from customers and the marketability of the inventory and the factors determining the impairment of the receivable and inventory involve significant judgment.

##### **(vi) Classification of investments**

On acquisition of an investment, the Group decides whether it should be classified as "investment at fair value through statement of income", "available for sale" or "held to maturity". The Group follows the guidance of IAS 39 on classifying its investments.

**(vii) Impairment of investments**

The Group follows the guidance of IAS 39 to determine when an available-for-sale is impaired. This determination requires significant judgment. In making this judgment, the group evaluates, among other factors, a significant or prolonged decline in the fair value below its cost; and the financial health of and short term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The determination of what is "significant" or "prolonged" requires significant judgment.

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimating uncertainty at the end of the reporting period 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.

**(i) Fair value of unquoted equity investments**

If the market for a financial asset is not active or not available, the Group establishes fair value by using valuation techniques which include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. This valuation requires the Group to make estimates about expected future cash flows and discount rates that are subject to uncertainty.

**(ii) Impairment of Goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the "value in use" of the asset or the cash-generating unit to which the goodwill is allocated.

Estimating a value in use requires the Group to make an estimate of the expected future cash-flows from the asset or the cash-generating unit and also choose an appropriate discount rate in order to calculate the present-value of the cash-flows.

**(iii) Long term contracts**

Revenue from long term contracts is recognized in accordance with the percentage of completion method of accounting measured by reference to the percentage that actual costs incurred to date bear to total estimated costs for each contract. The revenue recognition as per the above criteria should correspond to the actual work completed. The determination of estimated costs and the application of percentage of completion method involve estimation. Further, the budgeted cost and revenue should consider the claims and variations pertaining to the contract.

**(iv) Provision for doubtful debts and inventory**

The extent of provision for doubtful debts and inventories involves estimation process. Provision for doubtful debts is made when there is an objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The carrying cost of inventories is written down to their net realizable value when the inventories are damaged or become wholly or partly obsolete or their selling prices have declined. The benchmarks for determining the amount of provision or write-down include ageing analysis, technical assessment and subsequent events. The provisions and write-down of accounts receivable and inventory are subject to management approval.

**(v) Revaluation of investment properties**

The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statement of income. In addition, it measures land and buildings at revalued amounts with changes in fair value being recognised in the consolidated statement of comprehensive income. For the investment properties the valuer used a valuation technique based on a discounted cash flow model as there is a lack of comparable market data because of the nature of the properties. The determined fair value of the investment properties is most sensitive to the estimated yield as well as the long term vacancy rate.



### 3. Cash and cash equivalents

	2012	2011
Cash on hand and at banks	1,157,000	1,563,804
Fixed deposits	778,310	773,307
	1,935,310	2,337,111

The effective interest rate on the fixed deposit ranged from 0.5% to 1.5% per annum (2011 – 0.25% to 0.5%), these deposits have an average maturity of 90 days.

### 4. Accounts receivable and other debit balances

	2012	2011
(Trade receivables (a	6,910,794	6,739,198
(Provision for doubtful debts (b	(914,782)	(860,482)
	5,996,012	5,878,716
Cheques under collection	1,151,833	797,174
Letters of credit	290,491	441,142
Prepaid expenses	449,365	598,869
Retention receivable	-	1,044,753
Refundable deposits	272,100	361,086
Other debit balances	464,497	340,384
	8,624,298	9,462,124

#### a) Trade receivables

The ageing analysis of trade receivables is as follows:

	2012	2011
From 1 to 6 Months	5,044,879	4,924,228
From 6 to 12 Months	951,133	954,488
Over 1 year	914,782	860,482
	6,910,794	6,739,198

#### b) Provision for doubtful debts

The movement during the year is as follows:

	2012	2011
Balance at the beginning of the year	860,482	740,439
Provision for the year	54,300	121,190
Provision no longer required	-	(1,147)
Balance at the end of the year	914,782	860,482

c) The other classes within accounts receivable and other debit balances do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. Further, the Group does not hold any collateral as security, for accounts receivable and other debit balances.



### 5. Related party transactions

The Group has entered into various transactions with related parties, i.e. shareholders, key management personnel, associates and other related parties in the normal course of its business. Prices and terms of payment are approved by the Group's management. Significant related party transactions and balances are as follows:

<u>Consolidated statement of financial position:</u>	Major share- holders	Associates	Other related parties	2012	2011
Due from related parties	507,274	4,496,005	1,081,782	<b>6,085,061</b>	4,978,406
Due to related parties	167,542	664,237	557,678	<b>1,389,457</b>	3,161,166
Accounts payable and other credit balances	-	818,946	-	<b>818,946</b>	2,937,401
 <u>Consolidated statement of income:</u>					
Operating income	-	38,096	-	<b>38,096</b>	56,365
Operating cost	-	1,235,495	-	<b>1,235,495</b>	47,910

### Compensation to key management personnel:

	2012	2011
Short term benefits	<b>273,600</b>	228,100
Termination benefits	<b>21,888</b>	16,282
Board of Directors' remuneration	<b>15,000</b>	15,000

### 6. Inventories

	2012	2011
Raw materials	<b>3,069,140</b>	3,079,825
Finished goods	<b>1,274,733</b>	910,279
Spare parts	<b>1,347,236</b>	823,134
	<b>5,691,109</b>	4,813,238
(Provision for slow-moving inventory (a))	<b>(202,000)</b>	(202,000)
	<b>5,489,109</b>	4,611,238

#### a) Provision for slow-moving inventory

The movement during the year is as follows:

	2012	2011
Balance at the beginning of the year	<b>202,000</b>	170,000
Provision for the year	-	32,000
Balance at the end of the year	<b>202,000</b>	202,000

### 7. Investments available for sale

	<u>2012</u>	<u>2011</u>
Investment in real estate fund	82,096	82,596
Investment in unquoted shares	1,804,400	1,925,400
	<u>1,886,496</u>	<u>2,007,996</u>

The movement during the year is as follows:

	<u>2012</u>	<u>2011</u>
Balance at the beginning of the year	2,007,996	2,551,862
Redemption	-	(388,813)
Change in fair value	(121,500)	(155,053)
Balance at the end of the year	<u>1,886,496</u>	<u>2,007,996</u>

### Investments available for sale are denominated in the following currencies

	<u>2012</u>	<u>2011</u>
Kuwaiti Dinar	1,765,801	1,887,301
Bahraini Dinar	120,695	120,695
	<u>1,886,496</u>	<u>2,007,996</u>

It was not possible to reliably measure the fair value of unquoted equity securities amounting to KD 1,804,400 (2011: KD 1,925,400) due to non-availability of a reliable method that could be used to determine the fair value of such investments. Accordingly, they were stated at their cost less impairment losses.

### 8. Investment in associates

The investment in associates consists of the following:

	Country of Incorporation	Percentage of ownership %		<u>2012</u>	<u>2011</u>
		<u>2012</u>	2011		
Aerated Concrete Industries Company - Saudi Arabia W.L.L.	Saudi Arabia	45	45	60,097	32,889
Aerated Concrete Industries Company - Qatar W.L.L.	Qatar	49	49	1,683,040	2,058,134
Al-Masaken International for Real Estate Development -K.S.C(Closed)	Kuwait	35	35	8,408,830	7,888,225
Al-Masaken United Real Estate Co. K.S.C. (Closed) (Formerly known as Al-Masaken Arabian Holding Co. K.S.C. (Holding))	Kuwait	11.81	11.81	2,359,578	2,175,257
ACICO International for Contracting L.L.C.	UAE	45	45	1	1
ACICO Kuwaiti Syria Company W.L.L.	Syria	50	50	18,262	18,262
				<u>12,529,808</u>	<u>12,172,768</u>

The movement during the year is as follows:

	<u>2012</u>	<u>2011</u>
Balance at the beginning of the year	<b>12,172,768</b>	13,039,429
Additions	-	5,581
Group's share of results from associates	<b>193,548</b>	(850,893)
Effect of change in other comprehensive income of associates	<b>161,888</b>	2,598
Foreign currency translation adjustment	<b>1,604</b>	(23,947)
Balance at the end of the year	<b>12,529,808</b>	12,172,768

As of December 31, 2012 the fair value of the Group's investment in Al Masaken International For Real Estate Development K.S.C. (Closed) amounted to KD 3,500,000.

The investment in Al-Masaken United Real Estate Co. K.S.C. (Closed) (Formerly known as Al-Masaken Arabian Holding Co. K.S.C. (Holding)) was recognized as an investment in associate even though Group owns only 11.81% of the voting power, since Group has significance influence over financial and operating policies through representation in the board of directors.

The group has not accounted for its share of results in ACICO Kuwaiti Syria Company W.L.L. since the associate has not yet commenced operations till date of the consolidated financial statement.

The summarized Group's share of financial information in respect of the Group's associates are as follows:

Assets		Liabilities		Net assets	
<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>20,759,754</b>	19,560,619	<b>7,838,983</b>	7,001,022	<b>12,920,771</b>	12,559,597
Revenues			Results		
<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>		
<b>4,058,027</b>	2,999,136	<b>193,548</b>	(850,893)		

The group's share in the contingent liabilities of the associates amounted to KD 233,909 as of December 31, 2012.

### 9. Investment properties

	Investment properties	Investment properties under progress	<u>2012</u>	<u>2011</u>
Balance at the beginning of the year	171,249,865	1,273,444	<b>172,523,309</b>	169,914,248
Additions	-	32,941	<b>32,941</b>	1,273,444
Changes in fair value of investment properties	(703,700)	-	<b>(703,700)</b>	1,335,617
Balance at the end of the year	<b>170,546,165</b>	<b>1,306,385</b>	<b>171,852,550</b>	172,523,309

Investment properties with fair value of KD 57,225,660 (2011: KD 158,338,620) are pledged against term loan and Murabaha payable.

Investment properties with fair value of amounting to KD 114,528,030 are in process to be pledged against term loan and Murabaha payable.

The fair value of investments properties for the Group as of December 31, 2012 are based on lowest valuations carried out by two independent values.

The management of the Group have complied with Capital Markets Authority decision dated July 23, 2012 with respect to guidelines for fair value of investment properties.



**10. Fixed assets**

	Buildings	Machinery and equipment	Motor vehicles	Tools	Furniture and fixtures	Software	Capital work in progress	Total
<b>Cost:</b>								
As of December 31, 2011	12,985,312	28,445,716	3,384,519	917,237	1,108,979	426,427	1,031,650	48,299,840
Additions	2,000	285,116	883,427	2,030	46,129	19,814	1,268,280	2,506,796
Disposals	-	-	(172,366)	(16,093)	-	-	-	(188,459)
Foreign currency translation adjustments	12,303	97,398	1,770	7	616	357	-	112,451
<b>As of December 31, 2012</b>	<b>12,999,615</b>	<b>28,828,230</b>	<b>4,097,350</b>	<b>903,181</b>	<b>1,155,724</b>	<b>446,598</b>	<b>2,299,930</b>	<b>50,730,628</b>

**Accumulated depreciation:**

As of December 31, 2011	3,271,526	9,265,419	2,536,125	377,937	890,233	70,725	-	16,411,965
Charge for the year	525,988	535,635	425,195	43,715	92,017	99,218	-	1,721,768
Relating to disposals	-	-	(169,905)	(16,093)	-	-	-	(185,998)
Foreign currency translation adjustments	4,138	13,624	1,770	7	602	386	-	20,527
<b>As of December 31, 2012</b>	<b>3,801,652</b>	<b>9,814,678</b>	<b>2,793,185</b>	<b>405,566</b>	<b>982,852</b>	<b>170,329</b>	<b>-</b>	<b>17,968,262</b>

**Net book value:**

<b>As of December 31, 2012</b>	<b>9,197,963</b>	<b>19,013,552</b>	<b>1,304,165</b>	<b>497,615</b>	<b>172,872</b>	<b>276,269</b>	<b>2,299,930</b>	<b>32,762,366</b>
As of December 31, 2011	9,713,786	19,180,297	848,394	539,300	218,746	355,702	1,031,650	31,887,875

The Company's factory buildings are constructed on land leased from the Government for 25 years ending on June 30, 2017 and is renewable.

Cost of sales include depreciation charge for the year amounting to KD 1,569,694 (2011 – KD 1,310,775).

Fixed assets with net book value KD 5,677,789 (2011 – KD 6,040,065) are first degree pledged against term loan.

**11. Goodwill**

	Amount
Balance at December 31, 2010	1,500,000
Impairment loss	(500,000)
Balance at December 31, 2011	1,000,000
Impairment loss	(500,000)
Balance at December 31, 2012	500,000

**12. Due to banks**

Annual interest rate on bank overdrafts varies from 1.0% to 2.5% (2011 – from 1.0% to 2.5%), over the Central Bank of Kuwait discount rate.

**13. Accounts payable and other credit balances**

	2012	2011
Trade payable	6,321,433	10,005,317
Advances payments from customers	470,316	271,931
Post dated cheques	56,313	152,610
Subcontractors' retention payables	243,265	343,453
Accrued staff leave	222,423	170,350
Deposits from others	274,327	266,459
Payable to Kuwait Foundation for Advancement of Sciences	342,213	342,648
National Labor Support Tax payable	406,921	448,512
Zakat payable	277,155	107,126
Board of Directors' remuneration payable	62,000	62,000
Accrued expenses and others	1,042,799	1,092,911
Provision for maintenance work	162,011	220,204
	9,881,176	13,483,521

There is no material difference between the fair value and the carrying value of accounts payable and other credit balances.

**14. Loans**

	2012	2011
Current portion	450,000	4,388,828
Non-current portion	83,501,606	63,452,208
	83,951,606	67,841,036

The term loans carry interest ranging from 2.0% to 3.5% (2011 – 2.5% to 3.5%) per annum over the Central Bank of Kuwait discount rate, DIBOR and EIBOR as of December 31,2012 .

**The loans are guaranteed as follows :**

	<u>2012</u>	<u>2011</u>
promise to complete a first degree pledge for investments available for sale	-	751,945
promise to complete a first degree pledge for investment in associates	-	10,063,482
Investment properties	<b>20,711,700</b>	120,903,465
promise to complete a first degree pledge for investment property	-	14,812,200
Fixed assets	<b>5,677,789</b>	6,040,065
	<b><u>26,389,489</u></b>	<b><u>152,571,157</u></b>

Based on memorandum from a local bank dated December 29, 2012, mortgage against loans had been re-structured by first degree mortgage for investment property with fair value of KD 95,350,530. As of December 31, 2012. The mortgage procedures have not yet been completed till the date of consolidated financial statements.

**15. Murabaha payable**

	<u>2012</u>	<u>2011</u>
Murabaha payable	<b>58,652,315</b>	64,674,763
Less: finance cost	<b>(1,463,749)</b>	(919,361)
	<b><u>57,188,566</u></b>	<b><u>63,755,402</u></b>

Murabaha payable carry average finance charges of 3.0% per annum (2011 – 3.5%). Investment property with amount KD 36,513,960 (2011 – KD 37,435,155) are pledged against Murabaha payable, joint guarantee from the subsidiaries with by percentage ranging from 60% to 100%.

Based on a memorandum from a local bank dated December 29, 2012, mortgages against Murabaha payable had been restructured by second degree mortgage for investment property with fair value of KD 95,350,530 and first degree mortgage for investment property with fair value of KD 19,177,550 as of December 31, 2012. The mortgage procedures have not yet been completed till date of consolidated financial statements.

**16. Provision for end of service indemnity**

	<u>2012</u>	<u>2011</u>
Balance at the beginning of the year	<b>1,097,331</b>	990,276
Charge for the year	<b>291,836</b>	235,585
Paid during the year	<b>(122,431)</b>	(128,489)
Foreign currency translation adjustments	<b>(70)</b>	(41)
Balance at the end of the year	<b><u>1,266,666</u></b>	<b><u>1,097,331</u></b>



### 17. Share capital

Authorized issued and paid up capital consist of 248,788,290 shares (2011 – 236,941,220 shares) of nominal value 100 fils each and all shares are in cash.

The shareholders' General Assembly meeting held on May 17, 2012 increased the share capital from 236,941,220 shares to 248,788,290 shares with an increase of 11,847,070 shares by issuing 5% bonus shares (2011 – 5%).

Registered in commercial register under Ref. No 41903 dated May 22, 2012.

	No. of Shares	Nominal value
Balance at December 31, 2011	236,941,220	23,694,122
Bonus shares – 5%	11,847,070	1,184,707
<b>Balance at December 31, 2012</b>	<b>248,788,290</b>	<b>24,878,829</b>

### 18. Share premium

This represents cash received in excess of the par value of the shares issued. The share premium is not available for distribution except in cases stipulated by law.

### 19. Statutory reserve

As required by the Commercial Companies Law and the Parent Company's Articles of Association, 10% of net profit for the year attributable to equity holders of the Parent Company before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), contribution to Zakat and board of directors' remuneration is transferred to statutory reserve. The Parent Company may resolve to discontinue such annual transfers when the reserve equals 50% of the capital. This reserve is not available for distribution except in cases stipulated by Law and the Parent Company's Articles of Association.

### 20. Treasury shares

	2012	2011
Number of shares	969,335	923,176
Percentage of issued shares	0.39%	0.39%
(Market value (KD	219,070	206,791
(Cost (KD	432,774	432,774

**21. Segment reporting**

Following are the segment information for the main activities of the Group:

**December 31, 2012**

	Industrial	Real estates	Contracting	Total	Non - controlling interest / entries to eliminate inter-company transactions	Total
Operating income	53,013,646	-	5,207,823	58,221,469	(22,998,414)	35,223,055
Operating cost	43,028,595	-	4,154,411	47,183,006	(21,963,502)	25,219,504
Net real estates income	-	5,256,864	-	5,256,864	-	5,256,864
Net income for the year	4,878,595	(2,111,354)	289,568	3,056,809	(415,427)	2,641,382
Finance charges	989,995	6,706,616	30,120	7,726,731	-	7,726,731
Depreciation and amortization	190,903	-	18,627	209,530	-	209,530
Total assets	61,404,189	184,309,347	1,064,326	246,777,862	(4,332,625)	242,445,237
Total liabilities	12,330,320	140,667,016	3,994,565	156,991,901	1,890,350	158,882,251

**December 31, 2011**

	Industrial	Real estates	Contracting	Total	Non - controlling interest / entries to eliminate inter-company transactions	Total
Operating income	54,629,841	-	6,765,217	61,395,058	(26,979,068)	34,415,990
Operating cost	44,091,005	-	5,250,697	49,341,702	(25,961,968)	23,379,734
Net real estates income	-	4,730,325	-	4,730,325	-	4,730,325
Net income for the year	3,905,027	(2,144,727)	736,438	2,496,738	(587,926)	1,908,812
Finance charges	1,081,636	6,753,006	56,939	7,891,581	-	7,891,581
Depreciation and amortization	111,643	-	52,741	164,384	-	164,384
Total assets	69,875,358	184,515,649	2,305,338	256,696,345	(15,129,028)	241,567,317
Total liabilities	21,906,111	140,401,413	5,225,840	167,533,364	(7,902,402)	159,630,962

**22. Net real estates income**

	2012	2011
Change in fair value of investment properties	(703,700)	1,335,617
Net rental income	5,960,564	3,394,708
	5,256,864	4,730,325

The group had claimed loss of rent amount due to non compliance of the contract by the lessee through Dubai International Arbitration Center. The final award from Dubai International Arbitration Center had been issued in favor of the group. As a result the group recorded portion of rental income amounting to KD 1,360,684 during the year ended December 31, 2011, in accordance with amounts expected to be collected.

**23. General and administrative expenses**

General and administrative expenses include staff cost amounting to KD 2,094,304 (2011 – KD 2,109,246).

**24. Net investment income**

	2012	2011
Income from tawaroq	602,147	324,774
Impairment loss of investments available for sale	(121,500)	(226,196)
Dividend income	12,500	-
	493,147	98,578

**25. Other income**

	2012	2011
Gain on sale of fixed assets	24,632	93,023
Management fees	23,261	40,500
Others	67,086	220,814
	114,979	354,337

**26. Contribution to Kuwait Foundation for the Advancement of Sciences**

Contribution to Kuwait Foundation for the Advancement of Sciences is calculated at 1% of the profit of the Parent Company after deducting its share of income from shareholding subsidiaries and associates and transfer to statutory reserve:

	2012	2011
Profit for the year before contribution to KFAS, National Labor Support Tax, contribution to Zakat and Board of Directors' remuneration attributable to shareholders of the Parent Company	2,726,063	1,978,993
Income from subsidiary subject to contribution to Kuwait Foundation for the Advancement of Sciences	(1,830,467)	(2,585,873)
Income from associate subject to contribution to Kuwait Foundation for the Advancement of Sciences	(543,038)	-
Deduct : the transfer to statutory reserve	(272,606)	(197,899)
	79,952	(804,779)
KFAS rate	1%	1%
	800	-



### 27. National Labor Support Tax

National Labor Support Tax is calculated at 2.5% on the consolidated profit of the parent Company after deducting its share of profit from listed subsidiaries and associates subject to the same law, also its share of NLST paid by listed subsidiaries subject to the same law and cash dividends received from listed companies subject to the same law in accordance with law No. 19 for year 2000 and Ministerial resolution No. 24 for year 2006 and their executive regulations.

### 28. Contribution to Zakat

Contribution to Zakat is calculated at 1% on the consolidated profit of the parent Company after deducting its share of profit from Kuwaiti shareholding associates subject to the same law, also its share of Zakat paid by Kuwaiti shareholding subsidiaries subject to the same law and cash dividends received from Kuwaiti shareholding companies subject to the same law in accordance with law No. 46 for year 2006 and Ministerial resolution No. 58 for year 2007 and their executive regulations.

### 29. Board of Directors' remuneration

The proposed Board of Directors' remuneration is subject to the approval of the shareholders' General Assembly.

### 30. Earnings per share

There are no potential dilutive ordinary shares. The information necessary to calculate basic earnings per share based on the weighted average number of shares outstanding during the year is as follows:

	<u>2012</u>	<u>2011 (Restated)</u>
Net profit for the year attributable to parent company's shareholders	<u>2,641,382</u>	<u>1,908,812</u>
	<u>Shares</u>	<u>Shares</u>
<u>Number of shares outstanding:</u>		
Number of issued shares at beginning of the year	<u>236,941,220</u>	236,941,220
Bonus shares	<u>11,847,070</u>	11,847,070
Weighted average of treasury shares	<u>(969,335)</u>	(969,335)
Weighted average number of shares outstanding at end of the year	<u>247,818,955</u>	<u>247,818,955</u>
	<u>Fils</u>	<u>Fils</u>
Earnings per share attributable to parent company's shareholders	<u>10.66</u>	<u>7.70</u>

Earnings per share attributable to parent company's shareholders for the year ended December 31, 2011 was 8.09 fils before retroactive adjustment relating to bonus shares.

### 31. Proposed dividends

#### Cash Dividends

The Board of Directors' meeting held on March 25, 2013 recommend a cash dividend of 7.5 fils per share. This recommendation is subject to the approval of the Ordinary Shareholders' Annual General Assembly.

The shareholders' general assembly meeting held on May 17, 2012 approved the distribution of cash dividend of 5 fils per share and 5 bonus shares for every 100 shares held (5%) for the year ended December 31, 2011.

### **32. Financial Risk Management**

In the normal course of business, the Group uses primary financial instruments such as cash and cash equivalents, receivables, investments, due from/to related parties, bank borrowings and payables and as a result, is exposed to the risks indicated below. The Group currently does not use derivative financial instruments to manage its exposure to these risks.

#### **a) Interest rate risk**

Financial instruments are subject to the risk of changes in value due to changes in the level of interest. The effective interest rates and the periods in which interest bearing financial assets and liabilities are reprised or mature are indicated in the respective notes.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit (through the impact on floating rate borrowings).

Year	Increase / (Decrease) in interest rate	Loan Balance on December 31	Effect on consoli- dated statement of income
<b>2012</b>			
Due to banks	± 50 basis points	± 3,264,169	± 16,321
Loans	± 50 basis points	± 83,951,606	± 419,758
Murabaha payable	± 50 basis points	± 57,188,566	± 285,943
<b>2011</b>			
Due to banks	± 50 basis points	± 7,494,726	± 37,473
Loans	± 50 basis points	± 67,841,036	± 339,205
Murabaha payable	± 50 basis points	± 63,755,402	± 318,777

#### **b) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets which potentially subject the Group to credit risk consist principally of fixed and short notice bank deposits. The Group's fixed and short notice bank deposits are placed with high credit rating financial institutions. Receivables are presented net of allowance for doubtful debts. Credit risk with respect to receivables is limited due to the large number of customers and their dispersion across different industries.

The Group's maximum exposure arising from default of the counter-party is limited to the carrying amount of cash and cash equivalents, short-term deposits, receivables and due from related parties.

#### **c) Foreign currency risk**

The Group incurs foreign currency risk on transactions that are denominated in a currency other than the Kuwaiti Dinar. Group may reduce its exposure to fluctuations in foreign exchange rates through the use of derivative financial instruments. The Group ensures that the net exposure is kept to an acceptable level, by dealing in currencies that do not fluctuate significantly against the Kuwaiti Dinar.

The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange between AED and Kuwaiti Dinar.

Year	Increase / (Decrease) against KD	Effect on consolidated statement of income	Effect on consolidated comprehensive income
<b>2012</b>			
AED	± 5.00%	± 22,545	± 388,565
Year	Increase / (Decrease) against KD	Effect on consolidated statement of income	Effect on consolidated comprehensive income
<b>2011</b>			
AED	± 5.00%	± 30,211	± 407,161

#### d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. To manage this risk, the Group periodically assesses the financial viability of customers and invests in bank deposits or other investments that are readily realizable.

#### Maturity Table for financial liabilities

##### 2012

Financial liabilities	1-3 months	3-12 months	Over 1 year	Total
Due to banks	-	3,264,169	-	3,264,169
Loans	-	450,000	83,501,606	83,951,606
Accounts payable and other credit balances	427,220	9,453,956	-	9,881,176
Murabaha payable	-	4,144,337	53,044,229	57,188,566
Due to related parties	-	-	1,389,457	1,389,457
Dividend payable to shareholders	1,510,313	-	-	1,510,313
<b>Total</b>	<b>1,937,533</b>	<b>17,312,462</b>	<b>137,935,292</b>	<b>157,185,287</b>

##### 2011

Financial liabilities	1-3 months	3-12 months	Over 1 year	Total
Due to banks	-	7,494,726	-	7,494,726
Loans	-	4,388,828	63,452,208	67,841,036
Accounts payable and other credit balances	716,629	12,766,892	-	13,483,521
Murabaha payable	-	1,000,000	62,755,402	63,755,402
Due to related parties	-	-	3,161,166	3,161,166
Dividend payable to shareholders	2,088,128	-	-	2,088,128
<b>Total</b>	<b>2,804,757</b>	<b>25,650,446</b>	<b>129,368,776</b>	<b>157,823,979</b>

**e) Equity price risk**

Equity price risk is the risk that fair values of equities decrease as the result of changes in level of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment in equity securities classified as available for sale.

The following table demonstrates the sensitivity to a reasonably possible change in the equity indices as a result of change in the fair value of these investments, to which the Group had significant exposure at December 31:

<u>Market Indices</u>	<u>2012</u>		<u>2011</u>	
	<u>Change in % equity price</u>	<u>Effect on consolidated comprehensive income</u>	<u>Change in % equity price</u>	<u>Effect on consolidated comprehensive income</u>
Real Estate Fund Manager's report	%5±	<b>4,105 ±</b>	%5±	4,129 ±

**Fair value of financial instruments**

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from current bid prices, discounted cash flow models and other models as appropriate. At December 31, the fair values of financial instruments approximate their carrying amounts except for certain available for sale investments as mentioned in Note 7.

The Group had measured fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the group's assets and liabilities that are measured at fair value at December 31.

	<u>Level 2</u>	<u>Total</u>
<b><u>2012</u></b>		
Investment available for sale	<b>82,097</b>	<b>82,097</b>
	<u>Level 2</u>	<u>Total</u>
<b><u>2011</u></b>		
Investment available for sale	82,596	82,596

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily traded equity investments classified as trading securities or available-for-sale.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.



- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of reporting period.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

### 33. Capital Risk Management

The Group's objectives when managing capital resources are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital resources structure to reduce the cost of capital.

In order to maintain or adjust the capital resources structure, the Group may adjust the amount of dividends paid to shareholders, return paid up capital to shareholders, issue new shares, sell assets to reduce debt, repay loans or obtain additional loans.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

For the purpose of capital risk management, the total capital resources consist of the following components:

	<u>2012</u>	<u>2011</u>
Due to banks	<b>3,264,169</b>	7,494,726
Loans and Murabaha payable	<b>141,140,172</b>	131,596,438
Less: cash and cash equivalents	<b>(1,935,310)</b>	(2,337,111)
Net debt	<b>142,469,031</b>	136,754,053
Total equity	<b>83,562,986</b>	81,936,355
Total capital resources	<b>226,032,017</b>	218,690,408

### 34. Contingent liabilities

	<u>2012</u>	<u>2011</u>
Letters of guarantee	<b>5,495,895</b>	7,397,706
Letters of credit	<b>156,013</b>	1,060,300
	<b>5,651,908</b>	8,458,006

### 35. Comparative figures

Certain of the prior year amounts have been reclassified to confirm with amounts of current year presentation.

	<u>Balance as of December 31, 2011</u>	<u>Reclassified balance</u>
Loans	<b>60,681,894</b>	-
Murabaha payable	-	60,681,894
	<b>60,681,894</b>	60,681,894



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