

Arabi Group Holdings – K.S.C.P
Kuwait

Independent Auditor's Report and
Consolidated Financial Statements
Year ended 31 December 2013

PKF

Accountants &
business advisers

AL – WAHA
AUDITING OFFICE
ALI OWAID RUKHEYEES



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**Arabi Group Holdings K.S.C.P
Kuwait**

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on Consolidated Financial Statements

Introduction

We have audited the accompanying consolidated financial statements of Arabi Group Holdings K.S.C.P ('the Parent Company) and its subsidiaries (together called "the Group"), which comprise the consolidated statement of financial position as at 31 December 2013 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

The Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 auditor's 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 reasonableness of accounting estimates made by the Parent Company's management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion we draw attention to note 2.2 to the consolidated financial statements which indicate that as of 31 December 2013 two of the subsidiaries has reported accumulated deficit that exceeds three quarters of its share capital. These conditions, along with other matters as set forth in note 2.2 indicate uncertainty about the subsidiaries' ability to continue as going concern. The consolidated financial statements for the year ended 31 December 2013 does not include any adjustments that might result from the outcome of this uncertainty.

Further, we draw attention to note 2.20 to the consolidated financial statements regarding receivables from contract customers which are under legal dispute and contract in progress and receivables from related party. The Group management is of the opinion that the carrying amount of assets will be recovered in full and are not impaired. The consolidated financial statements for the year ended 31 December 2013 does not include any adjustments that might results from uncertainties regarding the outcome of Court judgments and acceptance and completion of contracts and recovery of dues from related party.

We draw attention to note 5 to the consolidated financial statements towards funds availed through a third party for Group's payments in proposed establishment of a new company and the arrangement with third party are under process and negotiation.

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the statements and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Companies Law No.25 2012, as amended, and by the Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violation of the Companies Law No. 25 of 2012, as amended, or of the Articles of Association have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Group or on its consolidated financial position.

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Kuwait
31 March 2014

Arabi Group Holdings – K.S.C.P
Kuwait

Consolidated Statement of Financial Position as at 31 December 2013

Exhibit - A

	Note	Kuwaiti Dinars	
		2013	2012
Assets			
Current Assets			
Cash and cash equivalents	4	1,164,878	1,025,611
Trade and other receivables	5	74,694,595	33,270,566
Investment at fair value through profit or loss	6	8,563	11,454
Due from related parties	7	5,055,989	4,770,475
Contract in progress – due from customers	8	5,381,182	4,217,993
Inventories	9	14,676,533	11,845,673
		<u>100,981,740</u>	<u>55,141,772</u>
Non-current assets			
Investments available for sale	6	3,211,457	3,514,685
Investment in associate	10	1	1
Investment in properties	11	2,144,000	1,743,750
Investments in unconsolidated subsidiaries	12	589,020	699,646
Property and equipment	13	8,333,240	8,024,302
Goodwill	14	595,964	795,964
		<u>14,873,682</u>	<u>14,778,348</u>
		<u>115,855,422</u>	<u>69,920,120</u>
Total assets			
Liabilities and equity			
Current liabilities			
Bank overdrafts and promissory notes	15	17,289,162	15,451,520
Due to related parties	16	1,630,242	924,493
Trade and other payables	17	36,469,284	13,562,088
Term loans	18	14,182,702	8,840,352
		<u>69,571,390</u>	<u>38,778,453</u>
Noncurrent liabilities			
Noncurrent portion of term loans	18	21,627,525	7,401,396
Post employment benefits	19	2,209,912	2,138,581
		<u>23,837,437</u>	<u>9,539,977</u>
Equity			
Attributable to the Parent Company's			
Capital	20	14,261,986	13,582,844
Proposed bonus shares	20	713,099	679,142
Share premium	20	7,877,292	7,877,292
Statutory reserve	20	209,763	95,331
Voluntary reserve	20	209,763	95,331
Treasury share reserve		17,230	17,230
Revaluation reserve		1,430,016	1,430,016
Foreign currency translation adjustments		(99,605)	(94,950)
Fair valuation reserve		(1,582,659)	(1,468,720)
Retained earnings		126,859	2,975
Treasury shares	21	(1,328,065)	(1,082,550)
		<u>21,835,679</u>	<u>21,133,941</u>
		<u>610,916</u>	<u>467,749</u>
Non controlling interest			
Total equity		<u>22,446,595</u>	<u>21,601,690</u>
Total liabilities and equity		<u>115,855,422</u>	<u>69,920,120</u>

The accompanying notes are an integral part of these consolidated financial statements


Tareq Mohammed Al Maoushargi
Chairman

Arabi Group Holdings – K.S.C.P
Kuwait

Consolidated Statement of Income for the year ended 31 December 2013

	Note	Exhibit - B	
		Kuwaiti Dinars	
		2013	2012
Sales		34,871,438	36,981,157
Contract revenue		15,793,115	16,799,028
		<u>50,664,553</u>	<u>53,780,185</u>
Cost of sales	22	(28,758,972)	(31,347,859)
Contract costs	22	(10,151,217)	(10,957,665)
		<u>(38,910,189)</u>	<u>(42,305,524)</u>
Gross profit		11,754,364	11,474,661
General and administrative expenses	22	(9,245,661)	(7,813,523)
Depreciation	13	(527,645)	(541,438)
Provision for doubtful debts	5	(411,901)	(576,675)
Provision for slow moving inventory	9	(83,139)	(115,422)
Profit from operations		1,486,018	2,427,603
Unrealized (loss)/gain from investments at fair value through profit or loss		(2,891)	1,835
Impairment loss on investment available for sale	6	(150,000)	-
Income from investment property	11	400,250	243,750
Share of loss of unconsolidated subsidiaries	12	(110,626)	(114,530)
Impairment loss on goodwill	14	(200,000)	-
Other income	23	2,891,503	1,061,760
Interest expenses		<u>(2,992,935)</u>	<u>(2,487,454)</u>
Profit before contribution to KFAS, Zakat and NLST		1,321,319	1,132,964
KFAS		(10,299)	(8,580)
Zakat		(19,479)	(20,558)
NLST		(48,697)	(51,396)
Profit for the year		<u>1,242,844</u>	<u>1,052,430</u>
Attributable to:			
Equity holders of the Parent Company		1,065,847	872,779
Non controlling interest		<u>176,997</u>	<u>179,651</u>
		<u>1,242,844</u>	<u>1,052,430</u>
Basic and diluted earnings per share for the year (fils)	24	<u>7.71</u>	<u>6.30</u>

The accompanying notes are an integral part of these consolidated financial statements

Arabi Group Holdings – K.S.C.P
Kuwait

Consolidated Statement of Comprehensive Income for the year ended 31 December 2013

	Exhibit - C	
	Kuwaiti Dinars	
	2013	2012
Profit for the year	1,242,844	1,052,430
Other comprehensive income:		
Items that may be reclassified subsequently to income statement		
Change in foreign currency translation	802	47,538
Net unrealized loss on available for sale investments	(153,226)	(963,510)
Total comprehensive income for the year	<u>1,090,420</u>	<u>136,458</u>
Attributable to:		
Equity holders of the Parent Company	947,253	(13,754)
Non controlling interest	143,167	150,212
	<u>1,090,420</u>	<u>136,458</u>

The accompanying notes are an integral part of these consolidated financial statements

Arabi Group Holdings – K.S.C.P
Kuwait

Consolidated Statement of Changes in Equity for the year ended 31 December 2013

	Kuwaiti Dinars										Non controlling interest	Total Equity		
	Equity attributable to the Parent Company's Shareholders													
	Capital	Proposed bonus shares	Share premium	Statutory reserve	Voluntary reserve	Treasury shares reserve	Revaluation reserve	Foreign currency translation adjustments	Fair valuation reserve	Retained earnings			Treasury shares	Total
Balance at 31 December 2012	13,582,844	679,142	7,877,292	95,331	95,331	17,230	1,430,016	(94,950)	(1,488,720)	2,975	(1,082,550)	21,133,941	467,749	21,601,690
Total comprehensive income or the year	-	-	-	-	-	-	-	(4,655)	(113,939)	1,065,847	-	947,253	143,167	1,090,420
Transfer to reserves	-	-	-	114,432	114,432	-	-	-	-	(228,864)	-	-	-	-
Issue of bonus shares note 20	679,142	(679,142)	-	-	-	-	-	-	-	-	-	-	-	-
Proposed bonus shares note 20	-	713,099	-	-	-	-	-	-	-	(713,099)	-	-	-	-
Purchase of treasury shares note 21	-	-	-	-	-	-	-	-	-	-	(245,515)	(245,515)	-	(245,515)
Balance at 31 December 2013	14,261,986	713,099	7,877,292	209,763	209,763	17,230	1,430,016	(99,605)	(1,582,659)	126,859	(1,328,065)	21,835,679	610,916	22,446,595
Balance at 31 December 2012	13,582,844	-	9,930,195	1,204,104	453,961	17,230	1,430,016	(143,425)	(533,712)	(3,710,968)	(1,082,550)	21,147,695	317,537	21,465,232
Transfers during the year	-	-	(2,052,903)	(1,204,104)	(453,961)	-	-	-	-	3,710,968	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	48,475	(935,008)	872,779	-	(13,754)	150,212	136,458
Transfer to reserves	-	-	-	95,331	95,331	-	-	-	-	(190,662)	-	-	-	-
Proposed bonus shares note 20	-	679,142	-	-	-	-	-	-	-	(679,142)	-	-	-	-
Balance at 31 December 2012	13,582,844	679,142	7,877,292	95,331	95,331	17,230	1,430,016	(94,950)	(1,468,720)	2,975	(1,082,550)	21,133,941	467,749	21,601,690

The accompanying notes are an integral part of these consolidated financial statements

Arabi Group Holdings - K.S.C.P
Kuwait

Consolidated Statement of Cash Flows for the year ended 31 December 2013

	Note	Exhibit - E	
		Kuwaiti Dinars	
		2013	2012
Cash flows – operating activities			
Profit for the year		1,242,844	1,052,430
<i>Adjustments for:</i>			
Depreciation	13	749,734	757,909
Unrealized loss/(gain) from investments at fair value through profit or loss		2,891	(1,835)
Impairment loss on available for sale	6	150,000	-
Income from investment properties	11	(400,250)	(243,750)
Shares of loss from unconsolidated subsidiaries	12	110,626	114,530
Impairment loss on goodwill	14	200,000	-
Gain on sale of sale of property and equipments	24	(66,033)	(13,862)
Interest expense		<u>2,992,935</u>	<u>2,487,454</u>
Operating profit before changes in working capital		4,982,747	4,152,876
Increase in trade and other receivables		(41,424,029)	(7,885,537)
(Increase)/decrease in due from related parties		(285,514)	1,566,216
(Increase)/decrease in due from customers for contract work		(1,163,189)	3,740,603
Increase in inventories		(2,830,860)	(972,494)
Increase in trade and other payables		22,907,196	1,304,861
Increase/(decrease) in due to related parties		705,749	(281,130)
Increase in post employment benefits		71,331	253,952
Net cash (used in)/from operating activities		<u>(17,036,569)</u>	<u>1,879,347</u>
Cash flows from investing activities			
Purchase of property and equipment – net		(1,162,406)	(553,779)
Proceeds from sale of property and equipment – net		169,769	21,035
Acquisition of available for sale of investments		-	(1,250,000)
Cash flow on acquisition of unconsolidated subsidiary		-	(189,275)
Net cash used in investing activities		<u>(992,637)</u>	<u>(1,972,019)</u>
Cash flow from financing activities			
Increase in bank overdrafts and promissory notes		1,837,642	2,190,342
Increase in term loans		19,568,479	79,961
Interest paid		(2,992,935)	(2,487,454)
Purchase of treasury shares		(245,515)	-
Net cash from/(used in) financing activities		<u>18,167,671</u>	<u>(217,151)</u>
Net increase/(decrease) in cash on hand and at banks		138,465	(309,823)
Effect of exchange rate changes on cash and cash equivalents		802	47,538
Cash and cash equivalents at the beginning of the year		<u>1,025,611</u>	<u>1,287,896</u>
Cash and cash equivalents at the end of the year	4	<u>1,164,878</u>	<u>1,025,611</u>

The accompanying notes are an integral part of these consolidated financial statements

1. Constitution and activities

Arabi Group Holdings K.S.C.P (“the Parent Company”) is a Kuwaiti shareholding company incorporated on 5 December 1982 and is listed on the Kuwait Stock Exchange. The registered office of the Parent Company is P.O. Box 4090, Safat, 13041, Kuwait and its principal activities are as follows:

- Owning stocks and shares in Kuwaiti or non-Kuwaiti companies and participating in the establishment of such companies.
- Participating in the management of companies in which it owns shares.
- Lending money to companies in which it owns shares, and guaranteeing third party loans in companies where it owns 20% or more of the capital of the borrowing company.
- Owning industrial rights such as patents, industrial trademarks, royalties, or any other related rights, and franchising them to other companies within or outside the State of Kuwait.
- Owning real estate and movable property to conduct its operations.

The Parent Company and its subsidiaries disclosed in note 3 are collectively referred to as “the Group” in these consolidated financial statements.

The new Companies Law issued on 26 November 2012 by Decree Law no. 25 of 2012 (the “Companies Law”), cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no. 97 of 2013 (the “Decree”). The Executive Regulations of the new amended law issued on 29 September 2013 was published in the official Gazette on 6 October 2013. As per Article three of the Executive Regulations, companies have one year from the date of publishing the Executive Regulations to comply with the new amended law.

These consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2014 and are subject to approval of shareholders at the forthcoming annual general meeting.

2. Basis of presentation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These financial statements is prepared under the historical cost basis of measurement as modified by the revaluation at fair value of financial assets held as “at fair value through profit or loss” and “available for sale investments”.

Changes in accounting policies

The accounting policies used in preparation of the financial statements are consistent with those used in the previous financial year, except for the following new and amended International Financial Reporting Standards (“IFRS”) effective as of 1 January 2013:

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

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

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 ‘Consolidated and Separate Financial Statements’ and SIC-12 Consolidation – Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled

through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights, to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of this Standard has not resulted in any material impact on the financial position or performance of the Group.

IFRS 12: Disclosure of involvements with other entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries, for example, where a subsidiary is controlled with less than a majority of voting rights. The adoption of this Standard has not resulted in any material additional disclosures.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The adoption of this standard is not expected to have any material impact on the financial position or performance of the Group.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to statement of comprehensive income at a future point in time would be presented separately from items that will never be reclassified. The adoption of this standard does not have any material impact on the financial information of the Group.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. As a result, the Group has not included any additional voluntary comparative information in its consolidated financial statements. The amendments have no impact on the Group's financial position or performance.

IAS 19: Employee benefits (Amendment)

IAS 19 includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in other comprehensive income and permanently excluded from income; expected returns on plan assets that are no longer recognized in income, instead, there is a requirement to recognize interest on the net defined benefit liability(assets) in income, calculated using the discount rate used to measure the defined benefit obligation, and ; unvested past services costs are now recognized in income at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The adoption of this Standard has no material effect on the financial position or performance of the Group.

IAS 27: Separate Financial Statements (As revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

Other amendments to IFRS effective as of 1 January 2013 did not have any impact on the financial position or performance of the Group.

Standards issued but not yet effective

The following IASB standards relevant to the Group have been issued but are not yet mandatory, and have yet not been adopted by the Group:

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for

annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Investment Entities (Amendment to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through income. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IAS 36: Impairment of assets –recoverable amount disclosures for non-financial assets (amendment)

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

Additional disclosures will be made in the financial statements when these standards, revisions and amendments become effective. The Group, however, expects no material impact from the adoption of the amendments on its financial position or performance.

2.2 Fundamental accounting concept

As of 31 December 2013, two of the subsidiaries, Arabi Eneritech Co. K.S.C. (Closed) has an accumulated deficit of KD 6,865,300 which is 85.55% of its share capital (31 December 2012: KD 7,610,914 which is 94.84%) and Arabi Engineering and Mechanical Works Company WLL has an accumulated deficit of KD 768,627 which is 76.86% of the share capital (31 December 2012: KD 787,594 which is 78.76%). Their financial statement has been prepared on a going concern basis as their shareholders have committed to provide further ongoing financial support for their operations.

These consolidated financial statements has been prepared on a going concern basis as Group's management expects that the subsidiaries shareholders will provide adequate financial support as discussed above.

2.3 Business Combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition is measured as the fair values of the assets given, equity interest issued and liabilities incurred or assumed at the date of the exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The acquisition related costs are expensed when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at their fair values at the acquisition date. Non-controlling interest in the subsidiary acquired is recognized at the non-controlling interest's proportionate share of the acquiree's nets assets

When a business combination is achieved in stages, the previously held equity interests in the acquiree is re-measured at its acquisition-date's fair value and the resulting gain or loss is recognized in the consolidated statements of income. The fair value of the equity of the acquiree at the acquisition date is

determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

The Group separately recognizes contingent liabilities assumed in a business combination if it is a present obligation that arises from the past events and its fair value can be measured reliably.

And indemnification received from the seller in a business combination for the outcome of contingency or uncertainty related to all or part of a specific asset or liability that is recognized at the acquisition date at its acquisition-date's fair value is recognized as an indemnification asset at the acquisition date at its acquisition-date's fair value.

The Group uses provisional values for the initial accounting of a business combination and recognizes any adjustment to these provisional values within the measurement period which is twelve months from the acquisition date.

2.4 Consolidation

The Group consolidates the financial statements of the Parent Company and subsidiaries (i.e. investees that it controls) and investees and controlled by its subsidiaries.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights and potential voting rights;

The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until the date when control ceases.

Non-controlling interest in an acquiree is stated at the non-controlling interest's proportionate share in the recognised amounts of the acquiree's identifiable net assets at the acquisition date and the non-controlling interest's share of changes in the equity since the date of combination. Total comprehensive income is attributed to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiary and any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Parent Company's shareholders. Non-controlling interest is presented separately in the consolidated statements of financial position and income. The non-controlling interests are classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the non-controlling interest.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements of subsidiaries. Intra group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra group transactions that are recognised in assets are eliminated in full. If a parent loses control of a subsidiary, it derecognises the assets (including any Goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non-controlling interests. Any investment retained is recognised at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognised in equity is transferred to the consolidated statement of income.

2.5 Cash and cash equivalents

Cash in hand, demand and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in the statement of cash flows.

2.6 Financial instruments

Classification

In accordance with International Accounting Standard (IAS) 39, the Group classifies its financial instruments as "investments at fair value through profit or loss", "loans and receivables" and "Investments available for sale". All financial liabilities are classified as "financial liabilities other than at fair value through profit or loss".

Recognition and de-recognition

The Group recognizes financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments. A financial asset (in whole or in part) is de-recognized when the contractual right to the cash flows from the financial asset has expired or the Group has transferred substantially all the risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial assets to the extent of its continuing involvement in the financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A regular way purchase and sale of financial assets is recognized using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established regulations or conventions in the market place.

Measurement

Financial instruments

All financial assets or financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are added except for those financial instruments classified as "at fair value through profit or loss".

Financial assets at fair value through profit or loss

Financial assets classified as "at fair value through profit or loss" are divided into two sub categories; financials assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term

or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented investment strategy.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. These are subsequently measured and carried at amortized cost using the effective yield method.

Cash and cash equivalents, trade and other receivables, due from related parties and contracts in progress – due from customers are classified as loans and receivables.

Available for sale

These 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 these investments within twelve months of the statement of financial position date. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in

equity When the “available for sale” asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to consolidated statement of income as gains or losses. Financial assets whose fair value cannot be reliably measured are carried at cost less impairment loss, if any.

Financial liabilities other than at fair value through profit or loss

Financial liabilities “other than at fair value through profit or loss” are subsequently measured and carried at amortized cost using the effective yield method.

Bank overdrafts and promissory notes, due to related parties, trade and other payables and term loans, are classified as financial liabilities “other than at fair value through profit or loss”.

Fair values

Fair values of quoted instruments are based on quoted closing bid prices. If the market for a financial asset is not active or the financial instrument is unquoted, fair value is derived from recent arm's length transactions, discounted cash flow analysis, other valuation techniques commonly used by market participants or determined with reference to market values of similar instruments.

The fair value of financial instruments other than short term financial instruments carried at amortized cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specified financial asset, or a group of similar assets, may be impaired. If such evidence exists any impairment loss is recognized in the consolidated statement of income. The recoverable amount of an interest bearing instrument is determined based on the net present value of future cash flows discounted at original effective interest rates. Any impairment loss is recognized in the consolidated statement of income.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on asset carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. Any impairment loss is recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in consolidated statement of income.

Available for sale financial investments

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in consolidated statement of income, is transferred from equity to income statement. Reversals in respect of equity instruments classified as available for sale are not recognized in consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through consolidated statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income.

2.7 Inventories

Inventories are valued at the lower of weighted average cost and net realizable value after making due allowances for any obsolete and slow moving items.

2.8 Investment in associate

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognized in the income statement.

2.9 Investment properties

Investment properties are initially recorded at cost, being the purchase price and any directly attributable expenditure for a purchased investment property and cost at the date when construction or development is complete for a self-constructed investment property. Subsequent to initial recognition, investment properties are re-measured to fair value on an individual basis based on an external valuation by an independent valuer. Changes in fair value are taken to the consolidated statement of income.

2.10 Property and equipment

Property and equipment are stated at historic cost less accumulated depreciation and accumulated impairment loss. Cost of an item of equipment comprises of acquisition cost and all directly attributable costs of bringing the assets to working condition for its intended use.

Freehold land is not depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Years</u>
Leasehold land	15-25
Buildings	10-25
Furniture and fixtures	3-20
Tools, equipment, computers and software	3-5
Machinery and equipment	3-15
Motor vehicles	3-5

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. The carrying amount of each item of property and equipment is reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists the assets are written down to its recoverable amount and the impairment loss is recognized in the consolidated statement of income. Impairment is tested at the lowest level of the cash generating unit (CGU) to which the item belongs.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of income.

2.11 Goodwill

Goodwill arising in a business combination is computed as the excess of the aggregate of: consideration transferred; the non-controlling interests proportionate share in the recognized amounts of the acquiree's net identifiable assets at the acquisition date, if any; and in business combination achieved in stages the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition date fair value of the identifiable assets acquired and liabilities assumed. Any deficit is a gain from bargain purchase and is recognized directly in the consolidated statement of income.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is allocated to each of the cash generating units for the purpose of impairment testing. Gains and losses on disposal of an entity or a part of the entity include the carrying amount of Goodwill relating to the entity of the portion sold.

Goodwill is tested, at least annually, for impairment and carried at cost less accumulated impairment losses.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units for the purpose of assessing impairment of goodwill. 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. Recoverable amount is the higher of 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 pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset for which the estimates of future cash flows have not been adjusted. The Group uses five year business plans for the value in use calculation. Long range growth rates are used for cash flows into perpetuity beyond the five year period. Fair value less costs to sell is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

2.12 Post-employment benefits

The Group is liable to make defined contributions to State Plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place where they are deemed to be employed.

The defined plan is unfunded and is based on the liability that would arise on involuntary termination of all employees on the statement of financial position date. This basis is considered to be a reliable approximation of the present value of this liability.

2.13 Provision for liabilities

Provision are recognized, when, as a result of past events it is probable that an outflow of economic resources will be required to settle a present legal or constructive obligation; and the amount can be reliably estimated.

2.14 Treasury shares

The cost of the Parent Company's own shares purchased, including directly attributable costs, is classified under equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and these amounts are not available for distribution. These shares are not entitled to cash dividends and rights issues.

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.

2.15 Revenue recognition

Revenue from construction and service contracts are recognized under the percentage of completion method, measured by reference to the proportion of contract costs incurred for work performed to date bear to the estimated total contract cost. When the outcome of a contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable. Full provision is made for expected future losses.

Revenue from installation contract is recognized on completion of installation.

Revenue from sale of goods is recognized upon delivery of goods to customers. Incentives from suppliers are recognized when earned.

Interest income is recognized using the effective yield method. Other income is recognized when earned.

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

Operating lease income is recognized on a straight line basis over the period of the lease term.

2.16 Accounting for leases

Where the Group is the lessee

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

2.17 Foreign currencies

The functional currency of an entity is the currency of the primary economic environment in which it operates and in the case of the Parent Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of income.

Translation differences on non-monetary items, such as equities classified as available for sale financial assets are included in the investment fair valuation reserve in equity.

The consolidated statement of income and cash flows of foreign operations are translated into the Parent Company's reporting currency at average exchange rates for the year and their statement of financial positions are translated at exchange rates ruling at the year end. Foreign exchange differences arising on translation are recognized directly in the statement of changes in equity.

2.18 Contingencies

Contingent assets are not recognized as an asset till realization becomes virtually certain. Contingent liabilities are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated.

2.19 Segment reporting

A business segment is a Group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are

subject to risks and return that are different from those of segments operating in other economic environment.

2.20 Critical accounting judgments and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that may affect amounts reported in these financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Assumptions and estimates that are significant to the financial statement are the following:

Judgments

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

Classification of financial instruments

On acquisition of a financial instrument, the Group's management has to decide whether it should be classified as at "fair value through profit or loss" or "available for sale". In making that judgment, management considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the consolidated statement of income or directly in equity.

Impairment of financial and non-financial assets

At each statement of financial position date, management assesses, whether there is any indication that inventories, property and equipment, goodwill and intangible assets may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

The Group treats investments available for sale as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment and involves evaluating factors including industry and market conditions, future cash flows and discount factors.

Business combinations

To allocate the cost of a business combination, management exercises significant judgment to determine identifiable assets and liabilities and contingent liabilities whose fair value can be reliably measured, to determine provisional values on initial accounting of a business combination and to determine the amount of goodwill and the Cash Generating Unit to which it should be allocated.

Estimation uncertainty

The key estimates at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair values – unquoted equity investments

The valuation techniques for unquoted equity investments make use of estimates such as future cash flows, discount factors, yield curves, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

Impairment of financial assets

The Group's management review periodically items classified as loans and receivables to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty.

Impairment and useful lives of plant and equipment

At each statement of financial position date, the Group's management assesses, whether there is any indication that plant and equipment may be impaired. The recoverable amount of an asset is determined based on the "value-in-use" method. This method uses estimated cash flow projections over the estimated useful life of the asset.

The Group's management determines estimated useful lives and related depreciation charge for the year. The estimate is based on product life cycle of plant and equipment. It could change significantly as a result of change in technology. Management increases the depreciation charge where the useful lives are lower than the previously estimated lives.

Revenue recognition

Contract revenue is measured at fair value of the consideration received or receivable. Contract revenue includes the work executed as of financial position date which is in process of acceptance from contract customers. The measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events like variations from the initially agreed amount, penalties arising from delays etc. The estimates often need to be revised as events occur and uncertainties are resolved.

Further significant assumptions are required to estimate the total contracts costs and recoverable variations works that will affect the stage of completion and the contract revenue respectively. In making these estimates, management has relied on past experience and the work of specialists.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with its accounting policy stated in note 2.11. The recoverable amounts of cash generating units are determined based on value-in-use calculations or at fair valueless costs to sell. These calculations require the use of significant estimates.

Valuation of investment properties

For investment properties, fair value is determined by independent registered real estate valuers which have relevant experience in the property market.

Receivable from contract customers and related parties

a) Recoverability from contract customers – trade receivables & contract in progress

(i) Legal receivables

The Group has receivables amount of KD 10,443,092 (31 December 2012: KD 10,163,905) from contract customers which are under legal dispute. Presently, the matters are referred by Court and are under various stages. The Group's management is confident and it estimates that the carrying amount of the assets will be recovered in full and are not impaired.

(ii) Non legal receivables

The Group has net receivables amount of KD 2,655,041 (31 December 2012: KD 2,656,765) from contract customers with respect to partly or completed contracts. The management is in the process of obtaining acceptance from the contract customers towards work executed and completing the contacts.

The Group's management is confident and it estimates that the carrying amount of the assets will be recovered in full and is not impaired.

With respect to the above total receivables of KD 13,098,133 (31 December 2012: KD 12,820,670); KD 9,193,321 (31 December 2012: KD 9,193,321) is included in trade receivables and KD 3,904,812 (31 December 2012: KD 3,627,349) is included in contract in progress.

b) Recoverability from related party

Due from related party includes net receivable amount of KD 1,734,655 (31 December 2012: KD 1,738,245) with respect to rendering of services for which the related party has defaulted in settling the payments. The Group's management is confident and it estimates that the amount is realizable and is not impaired.

3. Subsidiaries

The principal subsidiaries and associate are:

Subsidiary	Country of incorporation	Percentage of Ownership	
		2013	2012
Arabi Company WLL	Kuwait	100%	100%
Arabi Engineering and Mechanical Works Company WLL	Kuwait	100%	100%
Arabi Enertech Co KSCC	Kuwait	73.08%	73.08%
Held through Arabi Company W.L.L.			
Gulf Services & Industrial Supplies Co. L.L.C.	Oman	100%	100%
Arabi Company – Qatar W.L.L.	Qatar	100%	100%
Altec Corporation Limited (Formerly Jayakrishna Aluminium Limited)	India	90.03%	90.03%
Warba Mechanical Equipments L.L.C.	UAE	70%	70%
Associate			
Agricultural Environmental Projects Company W.L.L	Kuwait	40%	40%

The objectives of the Arabi Company W.L.L. and Arabi Engineering and Mechanical Works Company W.L.L. are to carry out all types of trading activities, such as buying, selling, rental, import and export activities, especially those related to technical equipment such as spare parts of machinery, vehicles and tools for garages, carpentries and smitheries, undertaking all types of aluminium works and electrical, mechanical, landscaping and agricultural projects and trading in land, leasing and managing real estate on its own behalf and other parties, owning shares in Kuwaiti and Non-Kuwaiti companies and participating in the management of companies in which it owns shares. 0.05% of the ownership in Arabi Company WLL and 0.20% of the ownership in Arabi Engineering and Mechanical Works Company WLL are held indirectly in the name of nominees on behalf of the Parent Company. The nominees have confirmed in writing that the Parent Company is the beneficial owner of these shares in the subsidiaries.

Arabi Enertech Co. KSCC is engaged in executing engineering turnkey contracts, sub-contracts, consultancy projects, supply, installation and maintenance of medical equipment and power systems.

The Parent Company has consolidated financial statements of all its subsidiaries which are been audited by independent auditors for the year ended 31 December 2013 while preparing this consolidated financial statements. Total assets of the subsidiaries amounted to KD 78,236,135 as of 31 December 2013 (31 December 2012: KD 67,632,294) and the subsidiaries net profit was KD 1,446,805 for the year ended 31 December 2013 (31 December 2012: KD 1,311,047)

4. Cash and cash equivalents

Cash and bank balances include the following cash and cash equivalents:

	Kuwaiti Dinars	
	2013	2012
Cash on hand	111,691	91,609
Cash at banks	1,053,187	934,002
	<u>1,164,878</u>	<u>1,025,611</u>

5. Trade and other receivables

	Kuwaiti Dinars	
	2013	2012
Trade receivables	32,057,920	30,871,346
Provision for doubtful debts	(3,095,644)	(2,687,517)
	<u>28,962,276</u>	<u>28,183,829</u>
Retentions receivables	1,407,593	1,145,110
Deposits and prepayments	3,842,045	1,239,874
Others	4,602,681	2,701,753
Advance for share subscription	35,880,000	-
	<u>74,694,595</u>	<u>33,270,566</u>

The Group has been awarded a bid to invest the equity shares equivalent to 26% in establishing a new company – Kuwait Health Assurance Company (KHAC) in Kuwait against which it has total commitment of KD 97,474,000. As per bid terms, the Group is initially liable to pay KD 67,574,000 towards 50% called-up share capital against the proposed authorized capital, premium and commission. As of 31 December 2013, an advance amount of KD 35,880,000 was paid and is included in trade and other receivables. The advance payment was mainly funded to the extent of KD 14,000,000 by availing a term loan from bank and KD 21,000,000 through third party. The formalities of establishing a new company and Group's share of interest in it and the arrangement with third party are under process and negotiation.

Reconciliation of provision for impairment of trade and other receivables:

	Kuwaiti Dinars	
	2013	2012
Opening balance – 1 January	2,687,517	2,106,701
Charge for the year	411,901	576,675
Write offs / disposal of subsidiary / others	(3,774)	4,141
Closing balance – 31 December	<u>3,095,644</u>	<u>2,687,517</u>

The Group does not hold any collateral as security.

6. Investments

	Kuwaiti Dinars	
	2013	2012
Investments at fair value through profit & loss:		
Quoted securities held for trading	8,563	11,454
	<u>8,563</u>	<u>11,454</u>

Investments available for sale:

Unquoted securities	3,211,457	3,514,685
	<u>3,211,457</u>	<u>3,514,685</u>

Unquoted investments of KD 1,749,500 (31 December 2012: KD 1,899,500) are carried at cost less impairment loss as their fair value cannot be reliably measured. Management has recognised KD 150,000 (31 December 2012: KD Nil) as impairment loss in the consolidated statement of income for some of the investments since the fair value was considered as significantly below their cost.

7. Due from related parties

	Kuwaiti Dinars	
	<u>2013</u>	<u>2012</u>
Due from related parties	8,779,984	8,494,470
Less: Provision for doubtful debts	<u>(3,723,995)</u>	<u>(3,723,995)</u>
	<u>5,055,989</u>	<u>4,770,475</u>

Due from related parties represents short term interest free receivables from related parties.

Reconciliation of provision for impairment of due from related parties:

	Kuwaiti Dinars	
	<u>2013</u>	<u>2012</u>
Opening balance – 1 January	3,723,995	3,723,995
Closing balance – 31 December	<u>3,723,995</u>	<u>3,723,995</u>

8. Contract in progress – due from customers

	Kuwaiti Dinars	
	<u>2013</u>	<u>2012</u>
Contract costs incurred to date	68,753,388	77,441,752
Recognized profit	<u>7,509,538</u>	<u>3,923,853</u>
	76,262,926	81,365,605
Progress billings	<u>(69,017,632)</u>	<u>(75,283,500)</u>
Due from customers	7,245,294	6,082,105
Less: Provision for losses	<u>(1,864,112)</u>	<u>(1,864,112)</u>
	<u>5,381,182</u>	<u>4,217,993</u>

Reconciliation of provision for impairment of due from contract customers:

	Kuwaiti Dinars	
	<u>2013</u>	<u>2012</u>
Opening balance – 1 January	1,864,112	1,864,112
Closing balance – 31 December	<u>1,864,112</u>	<u>1,864,112</u>

9. Inventories

	Kuwaiti Dinars	
	2013	2012
Inventory	13,016,189	13,102,744
Provision for slow moving items	(1,863,557)	(1,783,462)
	11,152,632	11,319,282
Goods in transit	3,523,901	526,391
	14,676,533	11,845,673

Reconciliation of provision for slow moving items is as below:

	Kuwaiti Dinars	
	2013	2012
Opening balance – 1 January	1,783,462	1,691,139
Charge for the year	83,139	115,422
Write back / (write off) / others	(3,044)	(23,099)
Closing balance -31 December	1,863,557	1,783,462

10. Investment in associate

Agricultural Environmental Projects Company W.L.L

This represents the Group's share of investments in associates accounted for using the equity method.

	Kuwaiti Dinars	
	2013	2012
Opening balance	1	1
Group's share of loss - on post recognition and acquisition as associate	-	-
Closing balance	1	1

The Group does not recognize future loss, as its share of losses in associate exceeds its interest in the associate. The shares of associate are not publicly listed on a stock exchange and hence published price quotes are not available. The assets, liabilities, revenues and loss of associate are as follows:

	Kuwaiti Dinars			
	Assets	Liabilities	Revenue	Net profit
31 December 2013	2,586,794	2,945,824	2,066,754	140,937
31 December 2012	3,081,912	3,569,184	2,611,611	128,197

11. Investment in properties

	Kuwaiti Dinars	
	2013	2012
Opening balance	1,743,750	1,500,000
Income on fair value of investment properties	400,250	243,750
Closing balance	2,144,000	1,743,750

During the year 2011, the Group has recognized the properties situated in Ardhiya at Plot No. 49 & 50 as investment properties at fair value. The Court has given judgment in favor of one of the subsidiaries regarding the possession of said properties which was illegally occupied by other party. Fair value of investment properties are determined based on the average market value by two independent valuer. These investment properties have been provided as security against term loan availed from the local bank.

12. Investment in unconsolidated subsidiaries

Name	Percentage of holding %	Kuwaiti Dinars	
		2013	2012
Daleel International Co. W.L.L.	100	-	-
Call to Connect India Private Limited	60	38,164	25,825
Workers Equity Holding – B.S.C. (Closed)	60	450,856	478,366
Mobivision Holding Company – B.S.C. Closed)	60	-	-
Arabi Aviation Company	100	100,000	100,000
KEY BS JLT- WLL	100	-	95,455
		589,020	699,646

The Group has not consolidated these subsidiaries since they are not material to the consolidated financial statements. The Group's share of loss from these subsidiaries for the year 2013 has been recognised based on their management accounts.

Arabi Group Holdings – K.S.C.P
Kuwait

Notes to the Consolidated Financial Statements – 31 December 2013

13. Property and equipments

	Kuwaiti Dinars					Total
	Freehold land	Leasehold land and building	Furniture and fixtures	Tools, equipments, computers and software	Machinery and motor vehicles	
Cost						
As at 31 December 2012	1,054,944	7,409,624	2,506,819	3,770,527	1,603,721	16,345,635
Additions	-	6,443	450,030	154,357	579,814	1,190,644
Disposals	-	-	(352,594)	(29,811)	(238,571)	(620,976)
Foreign currency translation adjustment	(2,097)	(7,304)	(4,489)	(79,340)	(1,259)	(94,489)
As at 31 December 2013	1,052,847	7,408,763	2,599,766	3,815,733	1,943,705	16,820,814
Accumulated depreciation						
At 31 December 2012	-	2,584,368	2,065,564	2,452,340	1,219,061	8,321,333
Charge for the year	-	198,211	200,693	142,993	207,837	749,734
On disposals	-	-	(315,905)	(15,130)	(186,205)	(517,240)
Foreign currency translation adjustment	-	(4,077)	(2,555)	(59,072)	(549)	(66,253)
At 31 December 2013	-	2,778,502	1,947,797	2,521,131	1,240,144	8,487,574
Net book value						
At 31 December 2013	1,052,847	4,630,261	651,969	1,294,602	703,561	8,333,240

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	Kuwaiti Dinars					Total
	Freehold land	Leasehold land and building	Furniture and fixtures	Tools, equipments, computers and software	Machinery and motor vehicles	
Cost						
As at 31 December 2011	1,038,820	7,405,877	2,207,615	3,695,886	1,510,568	15,858,766
Additions	-	-	294,762	77,519	156,699	528,980
Disposals	-	-	(6,861)	(3,342)	(70,304)	(80,507)
Foreign currency translation adjustment	16,124	3,747	11,303	464	6,758	38,396
As at 31 December 2012	1,054,944	7,409,624	2,506,819	3,770,527	1,603,721	16,345,635
Accumulated depreciation						
At 31 December 2011	-	2,379,472	1,874,949	2,256,152	1,112,587	7,623,160
Charge for the year	-	204,309	185,058	196,798	171,744	757,909
On disposals	-	-	(2,973)	(57)	(70,303)	(73,333)
Foreign currency translation adjustment	-	587	8,530	(553)	5,033	13,597
At 31 December 2012	-	2,584,368	2,065,564	2,452,340	1,219,061	8,321,333
Net book value						
At 31 December 2012	1,054,944	4,825,256	441,255	1,318,187	384,660	8,024,302

Buildings are constructed on leasehold land from the Government of Kuwait. Leasehold land is held under a renewable operating lease from the Government of Kuwait. The Group's buildings and lease hold land are revalued during 2009 by the independent valuers and the carrying values of the properties were adjusted with the resultant revaluation surplus by KD 1,956,672. The management of the Group decided to revalue said assets every five years. The depreciation charge for the year has been allocated as follows:

	2013	2012
Cost of sales / General and administration expenses	222,089	216,471
Other	527,645	541,438
	749,734	757,909

14. Goodwill

	Kuwaiti Dinars	
	2013	2012
Cost		
Opening balance – 1 January	795,964	795,964
Less: Impairment loss during the year	(200,000)	-
Closing balance – 31 December	595,964	795,964

15. Bank overdrafts and promissory notes

The effective interest rates on bank overdraft facilities and promissory notes was 2% to 4% per annum (31 December 2012: 2% to 4% per annum) over the Central Bank of Kuwait discount rate. A portion of these facilities amounting to KD 3,646,953 (31 December 2012: KD 4,753,683) carries an effective interest rate of 2% to 8% (2012: 2% to 8%) per annum over three months LIBOR.

These facilities are secured by the personal guarantees of the shareholders, corporate guarantee of the Group and mortgage of Group's freehold land and buildings and assignment of contract proceeds in favour of the lending banks.

16. Due to related parties

This represents interest free temporary advances repayable on demand.

17. Trade and other payables

	Kuwaiti Dinars	
	2013	2012
Trade payables	5,014,702	6,385,329
Advances from customers	1,886,693	990,079
Accrued staff leave	602,718	532,247
Retentions payable	699,000	724,390
Deferred payment for acquisition of subsidiaries	196,642	196,642
Other accrued expenses	6,541,529	4,733,401
Other payables	21,528,000	-
	36,469,284	13,562,088

Other payables represent the fund availed through a third party towards Group's payment for KHAC (note 5).

18. Term loans

	Kuwaiti Dinars	
	2013	2012
Current		
Short term loans	11,018,940	5,067,004
Current portion of long term loans	3,163,762	3,773,348
	<u>14,182,702</u>	<u>8,840,352</u>
Non current		
Non current portion of long term loans	21,627,525	7,401,396
	<u>35,810,227</u>	<u>16,241,748</u>

The exposure of Group's borrowings to interest rate changes and the contractual repricing dates at the statement of financial position dates are as follows:

	Kuwaiti Dinars	
	2013	2012
Less than 6 months	14,088,952	8,746,602
6 – 12 months	93,750	93,750
Above 1 year	21,627,525	7,401,396
	<u>35,810,227</u>	<u>16,241,748</u>

The effective interest rates on short term loans which are repayable within one year was 4% to 8% per annum (31 December 2012: 4% to 7.5% per annum). These loans are secured by the personal guarantees of shareholders, guarantees from the Company and certain receivables.

Long term loans carry an effective interest rate of 4% to 7.5% per annum (31 December 2012: 4% to 7.5% per annum). These loans are secured against guarantees from the Company, personal guarantee of shareholders and mortgage of properties at Shuaiba, investment properties and certain contract receivables, mortgage of third party properties and undertaking to mortgage 13% of Company's share of proposed Kuwait Health Assurance Company. The portion of the loans maturing within one year from the financial position date is shown as a current liability. Further, during the year 2012, the Group has renegotiated the terms of repayment with local banks and previous defaults in repayment of principal is rescheduled as new term loans and revised terms of repayment are agreed.

19. Post employment benefit

	Kuwaiti Dinars	
	2013	2012
Opening balance – 1 January	2,138,581	1,884,629
Additional provision for post employment benefits	458,037	485,126
End of service indemnity paid	(386,706)	(231,174)
Closing balance -31 December	<u>2,209,912</u>	<u>2,138,581</u>

20. Equity

The authorized, issued and paid up share capital of the Parent Company comprises of 142,619,866 shares of 100 fils each (31 December 2012: 135,828,444 shares of 100 fils each).

	Kuwaiti Dinars	
	2013	2012
1 January	13,582,844	13,582,844
Bonus issue during the year	679,142	-
31 December	14,261,986	13,582,844

At an Extraordinary General Assembly held on 30 June 2013 the shareholders of the Parent Company resolved to amend the Articles of Association to increase the authorized share capital of the Parent Company from KD 13,582,844 (represented by 135,828,444 shares of 100 fils each) to KD 14,261,986 (represented by 142,619,866 shares of 100 fils each). This amendment was entered in the commercial register on 8 July 2013.

Statutory and voluntary reserve

In accordance with the Companies Law and the Parent Company's Articles of Association, 10% each of the net profit for the year before board of directors' remuneration and statutory contributions is transferred to statutory reserve and voluntary reserve. Statutory reserve can be utilised for the distribution of a maximum dividend of up to 5% of the share capital in years retained earnings are insufficient for the purpose. There is no restriction on the distribution of voluntary reserve.

Bonus issue

At the Annual General Assembly held on 30 June 2013, the shareholders approved the Board of Directors recommendation to distribute bonus shares of 5% to shareholders registered in the Parent Company's records as of the date of Annual General Meeting.

Proposed dividends

The Board of Directors recommended distribution of bonus shares 5% on outstanding shares as at 31 December 2013. The proposed dividends, if approved, by the shareholders general assembly shall be payable to the shareholders registered in the Parent Company's records as of the date of the general assembly meeting.

21. Treasury shares

	Kuwaiti Dinars	
	2013	2012
Number of shares (share)	5,367,318	3,916,258
Percentage of issued shares (%)	3.76%	2.88%
Market value (KD)	1,062,729	430,788
Cost (KD)	1,328,065	1,082,550

22. Cost of sales / General & Administration expenses / Contract costs

	Kuwaiti Dinars	
	2013	2012
Materials	34,508,419	37,065,815
Staff cost	9,682,301	9,599,827
Rent	770,643	777,220
Depreciation	222,089	216,471
Commission	306,626	412,277
Other operating and administrative expenses	2,665,772	2,047,437
	<u>48,155,850</u>	<u>50,119,047</u>

23. Other income

	Kuwaiti Dinars	
	2013	2012
Commission and discounts	655,849	351,033
Foreign exchange gain	30,345	50,204
Gain on sale of property and equipment	66,033	13,862
Others	1,134,475	646,661
Dividend	1,004,801	-
	<u>2,891,503</u>	<u>1,061,760</u>

24. Earnings per share attributable to equity holders of the Parent Company

Earnings per share based on the weighted average number of shares outstanding the year is as follows:

	Kuwaiti Dinars	
	2013	2012
Profit attributable to equity holders of the Parent Company	<u>1,065,847</u>	<u>872,779</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average number of shares outstanding during the year	<u>138,283,197</u>	<u>138,507,795</u>
Earnings per share – Basic and diluted (fils)	<u>7.71</u>	<u>6.30</u>

25. Related party transactions

These transactions with certain related parties such as shareholders, directors, executive officers and key management of the Group, close members of their families and companies of which they are principal owners or over which they are able to exercise significant influence.

Transactions with related parties during the year other than key management compensation were mainly financing activities. Related party transactions are on terms approved by the management. Balances with related parties are disclosed in notes 7 and 16. Transactions with related parties included in the consolidated statement of income are as follows:

	Kuwaiti Dinars	
	2013	2012
Interest income	55,958	67,399
General and administration expenses	63,000	-
Key management compensation	136,800	378,896

26. Segment information

The Group operating segments are determined based on the reports reviewed by the chief executive function that are used for strategic decisions. These segments are strategic business units that offer different products and services. They are managed separately since the nature of the products and services, class of customers and marketing strategies of these segments are different.

These operations segments meet the criteria for reportable segments and are follows:

- Retail operations : Consists of sale equipment and tools.
- Engineering operations : Consists of mechanical projects and sale of related equipment.
- Electrical operations : Consists of electrical projects and sale of related equipment.

Management monitors the operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

The Group measures the performance of operating segments through measure of segment profit or loss net of taxes in management and reporting system.

The following table presents revenue and results information regarding the Group's reportable segments.

	Kuwaiti Dinars				
	Retail operations	Engineering operations	Electrical operations	Unallocated items and eliminations	Total
2013					
Segment revenue	25,431,144	22,854,081	2,410,851	(31,523)	50,664,553
Segment results	682,225	745,614	18,966	(203,961)	1,242,844
Other information					
Segment assets	32,190,552	37,479,744	8,565,838	37,619,288	115,855,422
Segment liabilities	16,690,314	34,506,847	8,033,681	34,177,985	93,408,827
Capital expenditure	454,379	736,265	-	-	1,190,644
Depreciation	435,428	278,422	1,521	34,363	749,734
	Kuwaiti Dinars				
	Retail operations	Engineering operations	Electrical operations	Unallocated items and eliminations	Total
2012					
Segment revenue	26,955,601	24,042,571	2,802,403	(20,390)	53,780,185
Segment results	854,649	778,179	(321,781)	(258,617)	1,052,430
Other information					
Segment assets	31,499,671	26,837,460	9,295,163	2,287,826	69,920,120
Segment liabilities	16,682,461	24,464,210	8,781,972	(1,610,213)	48,318,430
Capital expenditure	440,959	84,781	402	2,838	528,980
Depreciation	443,495	278,319	1,662	34,433	757,909

Secondary reporting format – geographical segment

The Group operates primarily in countries in the Gulf Co-operation Council and therefore the revenue and assets are mainly from one geographical segment.

27. Contingent liabilities

The group was contingently liable in respect of the following

	Kuwaiti Dinars	
	2013	2012
Documentary letters of credit	4,618,615	977,677
Letters of guarantees	26,819,723	21,830,488
Letters of acceptance	488,103	3,136,615
	<u>31,926,441</u>	<u>25,944,780</u>

The Group has guaranteed and is legally responsible to a local bank towards the following credit facilities undertaken on behalf of Agricultural Environment Projects Company W.L.L., a related party.

	Kuwaiti Dinars	
	2013	2012
Due to bank	99,918	-
Letter of guarantee	1,051,848	1,163,765

28. Financial instruments- Fair value and Risk Management

In the normal course of business the Group uses financial instruments, principally cash, deposits, investments at fair value through profit or loss, investments available for sale, trade and other receivables, contract in progress – due from customers, due from/to related parties, term loans, bank overdrafts and promissory notes and trade and other payables.

Fair value

The fair value of a financial instrument is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms length transaction.

The fair values of financial instruments are not significantly different from their carrying values except for certain unquoted financial instruments that are carried at cost as disclosed in note 6. The carrying value less impairment provision of trade and other receivables and trade and other payables are assumed to approximate their fair values. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each statement of financial position date. The methods and assumptions used in estimating fair values of financial instruments are disclosed in note 2.6.

Financial risk factors

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. Risk management is carried out by the senior management under policies approved by the Board of Directors. Senior management identifies and evaluates financial risks in close co-operation with the operating units.

The significant risks that the Group is exposed to are discussed below;

Market risk

Market risk, comprising of equity price risk, interest rate risk and foreign exchange risk arises due to movements in equity prices of assets, interest rates and foreign currency rates respectively.

(a) Equity price risk

Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market. The Group does not have a significant exposure to equity price risk as significant portion of the investments are unquoted.

(b) Interest rate risk

Interest rate risk arises from the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from bank borrowings. Borrowings that are at variable rates expose the Group to cash flow interest risk. During 2013 and 2012, the Group's borrowings at variable rate were denominated in Kuwaiti Dinars and US Dollars.

The Group analyses its interest rate exposure by taking into consideration refinancing, renewal of existing positions and alternative financing.

At 31 December 2013, if interest rates at the date had been 50 basis points higher/lower with all other variables held constant, profit for the year would have been lower/higher by KD 164,146 (2012: KD 153,079).

(c) Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group does not have a significant exposure to foreign exchange risk. The Group manages its foreign exchange risk by setting limits on exposures to currency and counterparty and transacting business in major currencies.

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 to the Group to credit risk, consist principally of balance with banks, trade and other receivables, due from related parties and contract in progress – due from customers. The Group manages credit risk by maintaining accounts with local commercial banks of high credit rating. Credit risk with respect to trade and other receivables is limited as these are dispersed over a large number of customers.

The average credit period for trade and other receivables is three months. Group management has established a credit policy under which each new customer is analysed individually for creditworthiness before the payment and delivery terms and conditions are offered. Credit exposure is controlled by counterparty limits that are reviewed and approved by Group management.

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The Group's maximum exposure to credit risk is as flows:

	Kuwaiti Dinars	
	2013	2012
Bank balances	1,053,187	934,002
Trade and other receivables	34,972,551	32,030,692
Due from related parties	5,055,989	4,770,475
Contract in progress – due from customers	5,381,182	4,217,993
Total	46,462,909	41,953,162

Of the above assets KD 18,681,561 (2012: KD 18,072,038) are neither past due nor impaired and KD 27,781,348 (2012: KD 23,881,124) are past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of assets that are past due but not impaired are as flows:

	Kuwaiti Dinars	
	2013	2012
Up to 6 months	5,407,013	4,175,615
6 months and above	22,374,335	19,705,509
	27,781,348	23,881,124

As of 31 December 2013, assets amounting to KD 8,683,751 (31 December 2012: KD 8,275,625) were impaired against which the Group carries full provision.

Receivables from contract customers amounting to KD 10,443,092 are under legal disputes and their settlements proceeding are with Court, and other receivables contract customers of KD 2,655,041 is with respect to partly completed contracts for which the management is in the process of completing the contracts and its acceptance contract customers towards work executed and due from related parties includes net receivable of KD 1,734,655 with respect to rendering of services for which the related party has defaulted in settling the payments. The Group has the risk if the outcomes of Court judgments could be against Group and its unable to complete contracts and unable to realize the payments.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. Liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Parent Company's Board of Directors increases capital or borrowings based on ongoing review of funding requirements. The Parent Company's Board of Directors maintains flexibility in funding by maintaining availability under committed credit lines.

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The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Kuwaiti Dinars		
	Less than 1 year	Between 1 and 5 years	Over 5 years
At 31 December 2013			
Bank overdrafts and promissory notes	17,670,601	-	-
Due to related parties	1,630,242	-	-
Trade and other payables	34,582,591	-	-
Term loans	15,173,833	17,058,119	20,380,730
At 31 December 2012			
Bank overdrafts and promissory notes	15,819,147	-	-
Due to related parties	924,493	-	-
Trade and other payables	12,572,009	-	-
Term loans	14,485,065	8,923,171	10,768,570

Liquidity risk is managed and monitored by the Group as follows:

1. Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature.
2. The Group may also arrange for short term finance to meet maturing commitments.

29. Capital risk management

The Group defines total capital as total shareholders equity and debt as shown in the statement of financial position. The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for its members and benefits for other stakeholders.

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

There were no changes in the Group's approach to capital management during the year and group is not subject to externally imposed capital requirements.

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 less cash and cash equivalents.

The gearing ratios at 31 December 2013 and 31 December 2012 were as follows:

	Kuwaiti Dinars	
	2013	2012
Total borrowings	53,099,389	31,693,268
Less: cash and cash equivalents (Note 4)	(1,164,878)	(1,025,611)
Net debt	51,934,511	30,667,657
Total equity	21,835,679	21,133,941
	73,770,190	51,801,598
Gearing ratio	70.40%	59.20%

30. General Assembly of Shareholders

The shareholders Annual General Assembly held on 30 June 2013 approved the annual audited consolidated financial statements for the year ended 31 December 2012 and approved the Board of Directors recommendation to distribute bonus shares of 5% to shareholders registered in the Parent Company's record as of the date of Annual General Meeting.