Arabi Group Holdings – K.S.C. (Closed)
Kuwait

Independent Auditor's Report and
Consolidated Financial Statements
Year ended 31 December 2012

PKF
Accountants &
business advisers

AL – WAHA
AUDITING OFFICE
ALI OWAID RUKHEYEES

Arabi Group Holdings– K.S.C (Closed)
Kuwait

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Arabi Group Holdings K.S.C. (Closed)
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. (Closed) ('the Parent Company) and its subsidiaries (together called "the Group"), which comprise the consolidated statement of financial position as at 31 December 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

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 2012, 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 2012 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 2012 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 2012 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.

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 Commercial Companies Law of 1960, 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 Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2012 that might have had a material effect on the business of the Group or on its consolidated financial position.

Law No. 25 of 2012 dated 26 November 2012 promulgating the Companies Law was published in the Official Gazette on 29 November 2012 (the "Companies Law") and accordingly the old Commercial Companies Law No 15 of 1960 has been cancelled. As per Article 2 of Law No. 25, the Parent Company has to comply with the provisions, within six months from 29 November 2012.

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Kuwait
31 March 2013

Arabi Group Holdings – K.S.C (Closed)
Kuwait

Consolidated Statement of Financial Position as at 31 December 2012

Exhibit - A

	Note	Kuwaiti Dinars 2012	2011
Assets			
Current Assets			
Cash and cash equivalents	4	1,025,611	1,287,896
Trade and other receivables	5	33,270,566	25,385,029
Investment at fair value through profit or loss	6	11,454	9,619
Due from related parties	7	4,770,475	6,336,691
Contract in progress – due from customers	8	4,217,993	7,958,596
Inventories	9	11,845,673	10,873,179
		55,141,772	51,851,010
Non-current assets			
Investments available for sale	6	3,514,685	3,228,194
Investment in associate	10	1	1
Investment in properties	11	1,743,750	1,500,000
Investments in unconsolidated subsidiaries	12	699,646	624,901
Property and equipment	13	8,024,302	8,235,606
Goodwill	14	795,964	795,964
		14,778,348	14,384,666
Total assets		69,920,120	66,235,676
Liabilities and equity			
Current liabilities			
Bank overdrafts and promissory notes	15	15,451,520	13,261,178
Due to related parties	16	924,493	1,205,623
Trade and other payables	17	13,562,088	12,257,227
Term loans	18	8,840,352	13,674,099
		38,778,453	40,398,127
Noncurrent liabilities			
Noncurrent portion of term loans	18	7,401,396	2,487,688
Post employment benefits	19	2,138,581	1,884,629
		9,539,977	4,372,317
Equity			
Attributable to the Parent Company's			
Capital	20	13,582,844	13,582,844
Proposed bonus shares	20	679,142	-
Share premium	20	7,877,292	9,930,195
Statutory reserve	20	95,331	1,204,104
Voluntary reserve	20	95,331	453,961
Treasury share reserve		17,230	17,230
Revaluation reserve		1,430,016	1,430,016
Foreign currency translation adjustments		(94,950)	(143,425)
Fair valuation reserve		(1,468,720)	(533,712)
Retained earnings/(accumulated deficit)		2,975	(3,710,968)
Treasury shares	21	(1,082,550)	(1,082,550)
		21,133,941	21,147,695
Non controlling interest		467,749	317,537
Total equity		21,601,690	21,465,232
Total liabilities and equity		69,920,120	66,235,676

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

Tareq Mohammed Al Maoushargi
Chairman

Arabi Group Holdings – K.S.C (Closed)
Kuwait

Consolidated Statement of Income for the year ended 31 December 2012

Exhibit - B

	Note	Kuwaiti Dinars 2012	2011
Sales		36,981,157	31,843,636
Contract revenue		16,799,028	11,162,175
		53,780,185	43,005,811
Cost of sales	22	(31,347,859)	(23,977,389)
Contract costs	22	(10,957,665)	(9,573,143)
		(42,305,524)	(33,550,532)
Gross profit		11,474,661	9,455,279
General and administrative expenses	22	(7,813,523)	(7,290,162)
Depreciation	13	(541,438)	(561,444)
Provision for doubtful debts	23	(576,675)	(1,238,886)
Provision for slow moving inventory	9	(115,422)	(17,858)
Profit from operations		2,427,603	346,929
Unrealized gain from investments at fair value through profit or loss		1,835	22
Income from investment property	11	243,750	1,500,000
Share of loss from associate	10	-	(152,937)
Share of (loss)/profit of unconsolidated subsidiaries	12	(114,530)	473,103
Other income	24	1,061,760	1,708,551
Interest expenses		(2,487,454)	(1,916,556)
Profit before contribution to KFAS, Zakat and NLST		1,132,964	1,959,112
KFAS		(8,580)	-
Zakat		(20,558)	(33,561)
NLST		(51,396)	(83,904)
Profit for the year		1,052,430	1,841,647
Attributable to:			
Equity holders of the Parent Company		872,779	1,607,723
Non controlling interest		179,651	233,924
		1,052,430	1,841,647
Basic and diluted earnings per share for the year (fils)	25	6.62	12.19

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

Arabi Group Holdings – K.S.C (Closed)
Kuwait

Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

Exhibit - C

	Kuwaiti Dinars	
	2012	**2011**
Profit for the year	1,052,430	1,841,647
Other comprehensive income		
Change in foreign currency translation	47,538	(131,551)
Net unrealized loss on available for sale investments	(963,510)	(108,659)
Other comprehensive income for the year included directly in equity	(915,972)	(240,210)
Total comprehensive income for the year	136,458	1,601,437
Attributable to:		
Equity holders of the Parent Company	(13,754)	1,389,992
Non controlling interest	150,212	211,445

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

Group Holdings – K.S.C (Closed)
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olidated Statement of Changes in Equity for the year ended 31 December 2012

Exhibit – D

	Kuwaiti Dinars													
	Equity attributable to the Parent Company's Shareholders												Non controlling interest	Total Equity
	Capital	Proposed bonus shares	Share premium	Statutory reserve	Voluntary reserve	Treasury shares reserve	Revaluation reserve	Foreign currency translation adjustments	Fair valuation reserve	(Accumulated deficit)/ Retained earnings	Treasury shares	Total		
t 31 December	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	2,1465,232
uring the year note	-	-	(2,052,903)	(1,204,104)	(453,961)	-	-	-	-	3,710,968	-	-	-	-
orehensive income r	-	-	-	-	-	-	-	48,475	(935,008)	872,779	-	(13,754)	150,212	136,458
reserves	-	-	-	95,331	95,331	-	-	-	-	(190,662)	-	-	-	-
oonus shares note	-	679,142	-	-	-	-	-	-	-	(679,142)	-	-	-	-
t 31 December	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
: 31 December	13,582,844	-	9,930,195	1,204,104	453,961	17,230	1,430,016	(5,106)	(454,300)	(5,318,691)	(1,082,550)	19,757,703	106,092	19,863,795
rehensive income	-	-	-	-	-	-	-	(138,319)	(79,412)	1,607,723	-	1,389,992	211,445	1,601,437
: 31 December	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	2,1465,232

ompanying notes are an integral part of these consolidated financial statements

Arabi Group Holdings - K.S.C (Closed)
Kuwait

Consolidated Statement of Cash Flows for the year ended 31 December 2012

Exhibit - E

	Note	Kuwaiti Dinars 2012	Kuwaiti Dinars 2011
Cash flows – operating activities			
Profit for the year		1,052,430	1,841,647
Adjustments for:			
Depreciation	13	757,909	767,358
(Gain)/loss on sale of sale of property and equipments	24	(13,862)	59,045
Unrealized gain from investments at fair value through profit or loss		(1,835)	(22)
Share of loss from associate	10	-	152,937
Income from investment properties	11	(243,750)	(1,500,000)
Shares of loss/(profit) from unconsolidated subsidiaries	12	114,530	(473,103)
Interest expense		2,487,454	1,916,556
Operating profit before changes in working capital		4,152,876	2,764,418
Increase in trade and other receivables		(7,885,537)	(2,228,320)
Decrease/(increase) in due from related parties		1,566,216	(362,594)
Decrease in due from customers for contract work		3,740,603	143,933
(Increase)/decrease in inventories		(972,494)	629,924
Increase in trade and other payables		1,304,861	776,543
Decrease in due to related parties		(281,130)	(65,144)
Increase in post employment benefits		253,952	95,349
Net cash from operating activities		1,879,347	1,754,109
Cash flows from investing activities			
Purchase of property and equipments - net		(553,779)	(240,286)
Proceeds from sale of property and equipments - net		21,035	151,062
Acquisition of available for sale of investments		(1,250,000)	-
Cash flow on acquisition of unconsolidated subsidiary	12	(189,275)	-
Net cash used in investing activities		(1,972,019)	(89,224)
Cash flow from financing activities			
Increase in bank overdrafts and promissory notes		2,190,342	1,043,043
Increase/(decrease) in term loans		79,961	(388,296)
Interest paid		(2,487,454)	(1,916,556)
Net cash used in financing activities		(217,151)	(1,261,809)
Net (decrease)/increase in cash on hand and at banks		(309,823)	403,076
Effect of exchange rate changes on cash and cash equivalents		47,538	(131,551)
Cash and cash equivalents at the beginning of the year		1,287,896	1,016,371
Cash and cash equivalents at the end of the year	4	1,025,611	1,287,896

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

1. Constitution and activities

Arabi Group Holdings K.S.C. (Closed) ("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 its 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.

Law No. 25 of 2012 dated 26 November 2012 promulgating the Companies Law was published in the Official Gazette on 29 November 2012 (the "Companies Law") and accordingly the old Commercial Companies Law No 15 of 1960 has been cancelled. As per Article 2 of Law No. 25, the Parent Company has to comply with the provisions, within six months from 29 November 2012.

These consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2013 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 financials statements is prepared under the historical cost basis of measurement as modified by the revaluation at fair value of financials 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 2012:

IFRS 7 Financial Instrument: Disclosures – Enhanced Derecognition Disclosure Requirements
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 disclosure 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 amendment becomes effective for annual periods beginning on or after 1 July 2011.The amendment affects disclosure only and has no impact on the Group's financial position or performance.

Other amendments to IFRS effective as of 1 January 2012 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:

IAS 1 Financial Statements Presentation – Presentation of Items of Other Comprehensive Income (OCI)
The amendments to IAS 1 change the presentation of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequences of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosures of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investment 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 1 January 2013.

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.

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. These amendments are not expected to have a significant impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

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.

IFRS 10 Fair value measurement
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issue raised in SIC-12 Consolidation – Special Purpose Entities. It establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relates to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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 Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Improvements to IFRS (issued in May 2012)

IASB issued following improvements to IFRS effective for annual period beginning on or after 1 January 2013.

- IAS 1 Presentation of Financial Statements
- IAS 16 Property Plant and Equipments

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 2012, two of the subsidiaries, Arabi Enertech Co. K.S.C. (Closed) has an accumulated deficit of KD 7,610,914 which is 94.84% of its share capital (31 December 2011: KD 8,389,093 which is 104.54%) and Arabi Engineering and Mechanical Works Company WLL has an accumulated deficit of KD 787,594 which is 78.76% of the share capital (31 December 2011: KD 465,813 which is 46.58%). 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

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of income.

2.4 Consolidation

Subsidiaries are those enterprises, including special purpose entities, controlled by the Group. Control exists when the Group 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 on a line-by-line basis, from the date on which control is transferred to the Group until the date that control ceases.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on audited financial statements or audited financial statements of subsidiaries for the same reporting date and period as that of the Parent Company. Intra group balances, transactions, income and expenses are eliminated in full. Unrealised losses resulting from inter-company transactions are also eliminated unless cost cannot be recovered.

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 reliable 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:

	Years
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 represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable net assets of the acquired subsidiary or an associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Gains and losses on disposal of an entity or a part of the entity include the carrying amount of goodwill relating to the entity or the portion sold.

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.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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 reliable 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 10,163,905 (31 December 2011: KD 6,141,580) 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 2,656,765 (31 December 2011: KD 5,794,371) 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 12,820,670 (31 December 2011: KD 11,935,951); KD 9,193,321 (31 December 2011: KD 5,558,903) is included in trade receivables and KD 3,627,349 (31 December 2011: KD 6,377,048) is included in contract in progress.

b) Recoverability from related party

Due from related party includes net receivable amount of KD 1,738,245 (31 December 2011: KD 1,737,980) 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	
		2012	**2011**
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 2012 while preparing this consolidated financial statements. Total assets of the subsidiaries amounted to KD 67,632,294 as of 31 December 2012 (31 December 2011: KD 61,978,198) and the subsidiaries net profit was KD 1,311,047 for the year ended 31 December 2012 (31 December 2011: KD 1,577,996)

4. Cash and cash equivalents

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

	Kuwaiti Dinars	
	2012	**2011**
Cash on hand and at banks	1,025,611	1,158,634
Short term deposits with banks with original maturities of less than three months	-	129,262
	1,025,611	1,287,896

The effective interest rate on short term deposits as of 31 December 2012 was Nil (31 December 2011: 1%)

5. Trade and other receivables

	Kuwaiti Dinars	
	2012	**2011**
Trade receivables	30,871,346	23,455,305
Provision for doubtful debts	(2,687,517)	(2,106,701)
	28,183,829	21,348,604
Retentions receivables	1,145,110	1,110,154
Deposits and prepayments	1,239,874	830,091
Others	2,701,753	2,096,180
	33,270,566	25,385,029

Reconciliation of provision for impairment of trade and other receivables:

	Kuwaiti Dinars	
	2012	**2011**
Opening balance – 1 January	2,106,701	2,074,676
Charge for the year (Note 23)	576,675	38,886
Write offs / disposal of subsidiary / others	4,141	(6,861)
Closing balance – 31 December	2,687,517	2,106,701

The Group does not hold any collateral as security.

6. Investments

	Kuwaiti Dinars	
	2012	**2011**
Investments at fair value through profit & loss:		
Quoted securities held for trading	11,454	9,619
	11,454	9,619
Investments available for sale:		
Unquoted securities	3,514,685	3,228,194
	3,514,685	3,228,194

Unquoted investments of KD 1,899,500 (31 December 2011: KD 2,583,466) are carried at cost less impairment loss as their fair value cannot be reliably measured.

7. Due from related parties

	Kuwaiti Dinars	
	2012	2011
Due from related parties	8,494,470	10,060,686
Less: Provision for doubtful debts	(3,723,995)	(3,723,995)
	4,770,475	6,336,691

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	
	2012	2011
Opening balance – 1 January	3,723,995	3,723,995
Closing balance – 31 December	3,723,995	3,723,995

8. Contract in progress – due from customers

	Kuwaiti Dinars	
	2012	2011
Contract costs incurred to date	77,441,752	65,897,610
Recognized profit	3,923,853	703,529
	81,365,605	66,601,139
Progress billings	(75,283,500)	(56,778,431)
Due from customers	6,082,105	9,822,708
Less: Provision for losses	(1,864,112)	(1,864,112)
	4,217,993	7,958,596

Reconciliation of provision for impairment of due from contract customers:

	Kuwaiti Dinars	
	2012	2011
Opening balance – 1 January	1,864,112	664,112
Charge for the year (Note 23)	-	1,200,000
Closing balance – 31 December	1,864,112	1,864,112

9. Inventories

	Kuwaiti Dinars	
	2012	**2011**
Inventory	13,102,744	12,108,559
Provision for slow moving items	(1,783,462)	(1,691,139)
	11,319,282	10,417,420
Goods in transit	526,391	455,759
	11,845,673	10,873,179

Reconciliation of provision for slow moving items is as below:

	Kuwaiti Dinars	
	2012	**2011**
Opening balance – 1 January	1,691,139	1,695,830
Charge for the year	115,422	17,858
Write back / (write off) / others	(23,099)	(22,549)
Closing balance -31 December	1,783,462	1,691,139

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	
	2012	**2011**
Opening balance	1	152,938
Group's share of loss - on post recognition and acquisition as associate	-	(152,937)
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/(loss)**
31 December 2012	3,081,912	3,569,184	2,611,611	128,197
31 December 2011	3,292,040	3,934,211	2,502,271	(563,381)

11. Investment in properties

	Kuwaiti Dinars	
	31December 2012	31December 2011
Opening balance	1,500,000	-
Income on fair value of investment properties	243,750	1,500,000
Closing balance	1,743,750	1,500,000

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 2012	2011
Daleel International Co. W.L.L.	100	-	-
Call to Connect India Private Limited	60	25,825	32,207
Workers Equity Holding – B.S.C. (Closed)	60	478,366	492,694
Mobivision Holding Company – B.S.C. Closed)	100	-	-
Arabi Aviation Company	100	100,000	100,000
KEY BS JLT- WLL	100	95,455	-
		699,646	624,901

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 2012 has been recognised based on their management accounts.

During the current year, the Group has incorporated a Company in Dubai as KEY BS JLT Company WLL with 100% holding.

13. Property and equipments

	Kuwaiti Dinars					
	Freehold land	**Leasehold land and building**	**Furniture and fixtures**	**Tools, equipments, computers and software**	**Machinery and motor vehicles**	**Total**
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

	Kuwaiti Dinars					
	Freehold land	**Leasehold land and building**	**Furniture and fixtures**	**Tools, equipments, computers and software**	**Machinery and motor vehicles**	**Total**
Cost						
As at 31 December 2010	1,063,952	7,400,989	2,181,509	4,211,081	1,500,023	16,357,554
Additions	-	25,351	89,741	41,873	197,486	354,451
Disposals	-	-	(39,647)	(376,848)	(174,445)	(590,940)
Foreign currency translation adjustment	(25,132)	(20,463)	(23,988)	(180,220)	(12,496)	(262,299)
As at 31 December 2011	1,038,820	7,405,877	2,207,615	3,695,886	1,510,568	15,858,766
Accumulated depreciation						
At 31 December 2010	-	2,184,086	1,721,730	2,372,148	1,106,805	7,384,769
Charge for the year	-	204,074	201,576	188,987	172,721	767,358
On disposals	-	-	(35,216)	(186,715)	(158,902)	(380,833)
Foreign currency translation adjustment	-	(8,688)	(13,141)	(118,268)	(8,037)	(148,134)
At 31 December 2011	-	2,379,472	1,874,949	2,256,152	1,112,587	7,623,160
Net book value						
At 31 December 2011	1,038,820	5,026,405	332,666	1,439,734	397,981	8,235,606

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:

	2012	**2011**
Cost of sales / General and administration expenses	216,471	205,914
Other	541,438	561,444
	757,909	767,358

14. Goodwill

	Kuwaiti Dinars	
	2012	**2011**
Cost		
Opening balance – 1 January	795,964	795,964
Acquisition through business combinations	-	-
Closing balance – 31 December	795,964	795,964
Accumulated impairment losses	-	-
Carrying amount	795,964	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 2011: 2% to 4% per annum) over the Central Bank of Kuwait discount rate. A portion of these facilities amounting to KD 4,753,683 (31 December 2011: KD 4,137,855) carries an effective interest rate of 2% to 8% (2011: 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	
	2012	**2011**
Trade payables	6,385,329	5,262,267
Advances from customers	990,079	1,291,654
Accrued staff leave	532,247	384,739
Retentions payable	724,390	781,902
Deferred payment for acquisition of subsidiaries	196,642	196,642
Other accrued expenses	4,733,401	4,340,023
	13,562,088	12,257,227

18. Term loans

	Kuwaiti Dinars	
	2012	**2011**
Current		
Short term loans	5,067,004	5,901,023
Current portion of long term loans	3,773,348	7,773,076
	8,840,352	13,674,099
Non current		
Non current portion of long term loans	7,401,396	2,487,688

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	
	2012	**2011**
Less than 6 months	8,746,602	13,580,349
6 – 12 months	93,750	93,750
Above 1 year	7,401,396	2,487,688
	16,241,748	16,161,787

The effective interest rates on short term loans which are repayable within one year was 4% to 7.5% per annum (31 December 2011: 5% 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 2011: 6.5% 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. 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	
	2012	**2011**
Opening balance – 1 January	1,884,629	1,789,280
Additional provision for post employment benefits	485,126	306,688
End of service indemnity paid	(231,174)	(211,339)
Closing balance -31 December	2,138,581	1,884,629

20. Equity

The authorized, issued and paid up share capital of the Parent Company comprises of 135,828,444 shares of 100 fils each (31 December 2011:135,828,444 shares of 100 fils each).

	Kuwaiti Dinars	
	2012	**2011**
1 January	13,582,844	13,582,844
31 December	13,582,844	13,582,844

Statutory and voluntary reserve
In accordance with the Commercial Companies Law of 1960 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.

Proposed dividends
The Board of Directors recommended distribution of bonus shares of 5% (2011: Nil) on outstanding shares as at 31 December 2012. The proposed dividends if, 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	
	2012	**2011**
Number of shares (share)	3,916,258	3,916,258
Percentage of issued shares (%)	2.88%	2.88%
Market value (KD)	430,788	360,296
Cost (KD)	1,082,550	1,082,550

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

	Kuwaiti Dinars	
	2012	**2011**
Materials	37,065,815	29,223,760
Staff cost	9,599,827	8,224,385
Rent	777,220	911,966
Depreciation	216,471	205,914
Commission	412,277	262,752
Other operating and administrative expenses	2,047,437	2,011,917
	50,119,047	40,840,694

23. Provision for doubtful debts

	Kuwaiti Dinars	
	2012	**2011**
Provision for doubtful debts on trade and other receivables (note 5)	576,675	38,886
Provision for doubtful debts on Contract in progress – due from customers(note 8)	-	1,200,000
	576,675	1,238,886

24. Other income

	Kuwaiti Dinars	
	2012	**2011**
Commission and discounts	351,033	381,466
Foreign exchange gain/(loss)	50,204	(22,094)
Gain/(loss) on sale of property and equipment	13,862	(59,045)
Others	646,661	1,408,224
	1,061,760	1,708,551

25. 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	
	2012	**2011**
Profit attributable to equity holders of the Parent Company	872,779	1,607,723
	Shares	Shares
Weighted average number of shares outstanding during the year	135,828,444	135,828,444
Less: Weighted average number of treasury shares outstanding during the year	(3,916,258)	(3,916,258)
Weighted average number of shares outstanding during the year	131,912,186	131,912,186
Earnings per share – Basic and diluted (fils)	6.62	12.19

26. 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	
	2012	2011
Contract revenue	-	161,543
Key management compensation	378,896	320,324

27. 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
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

	Kuwaiti Dinars				
	Retail operations	Engineering operations	Electrical operations	Unallocated items and eliminations	Total
2011					
Segment revenue	25,778,275	15,106,939	2,123,304	(2,707)	43,005,811
Segment results	698,420	1,029,000	(149,425)	263,652	1,841,647
Other information					
Segment assets	28,952,405	23,059,954	9,965,839	4,257,477	66,235,676
Segment liabilities	15,037,379	21,358,991	9,130,868	(756,794)	44,770,444
Capital expenditure	223,415	131,006	30	-	354,451
Depreciation	453,854	277,695	2,164	33,645	767,358

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.

28. Contingent liabilities

The group was contingently liable in respect of the following

	Kuwaiti Dinars	
	2012	**2011**
Documentary letters of credit	977,677	1,275,579
Letters of guarantees	21,830,488	18,403,647
Others	-	46,548
Letters of acceptance	3,136,615	-
	25,944,780	19,725,774

The Group has guaranteed a local bank the following credit facilities on behalf of a related party in which it holds 11%.

	Kuwaiti Dinars	
	2012	**2011**
Letter of guarantee	-	233,685

29. Events occurring after the reporting date

On 21 February 2013, one of the subsidiaries inventory store located at Amghara, Kuwait was severally lost by fire with a carrying value of inventory of KD 502,205. The Group has made a claim for compensation of loss of inventories due to fire with insurance company. The financial statements for the year ended 31 December 2012 have not been adjusted for the financial effect of this incident.

30. 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 acknowledgeable, 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 2012 and 2011, 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 2012, 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 153,079 (2011: KD 140,343).

(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 counter party limits that are reviewed and approved by Group management.

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

	Kuwaiti Dinars	
	2012	**2011**
Bank balances	934,002	1,120,903
Trade and other receivables	32,030,692	24,554,938
Due from related parties	4,770,475	6,336,691
Contract in progress – due from customers	4,217,993	7,958,595
Total	41,953,162	39,971,127

Of the above assets KD 18,072,038 (2011: KD 18,245,700) are neither past due nor impaired and KD 23,881,124 (2011: KD 21,725,427) 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	
	2012	**2011**
Up to 6 months	4,175,615	3,305,977
6 months and above	19,705,509	18,419,450
	23,881,124	21,725,427

As of 31 December 2012, assets amounting to KD 8,275,625 (31 December 2011: KD 7,694,808) were impaired against which the Group carries full provision.

Receivables from contract customers amounting to KD 10,163,905 are under legal disputes and their settlements proceeding are with Court, and other receivables contract customers of KD 2,656,765 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 1,738,245 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.

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 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
At 31 December 2011			
Bank overdrafts and promissory notes	13,719,409	-	-
Due to related parties	1,205,623	-	-
Trade and other payables	10,965,573	-	-
Term loans	14,471,725	2,647,937	-

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

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.

31. 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 2012 and 31 December 2011 were as follows:

	Kuwaiti Dinars	
	2012	**2011**
Total borrowings	31,693,268	29,422,964
Less: cash and cash equivalents (Note 4)	(1,025,611)	(1,287,896)
Net debt	30,667,657	28,135,068
Total equity	21,133,941	21,147,694
	51,801,598	49,282,762
Gearing ratio	59.20%	57.09%

32. General Assembly of Shareholders

The shareholders Annual General Assembly held on 18 June 2012 approved the annual audited consolidated financial statements for the year ended 31 December 2011 and did not declare dividends for the year ended 31 December 2011 (31 December 2010 : Nil).

The general assembly of the shareholders also approved to reduce the losses (accumulated deficit) by KD 3,710,968 by transfer of balances as at 31 December 2011 in the voluntary reserve KD 453,961, statutory reserve KD 1,204,104 and share premium KD 2,052,903.

33. Comparative figures

Certain prior period amounts have been reclassified to conform with the current period presentation but with no effect on profit or equity.