# Ras Al Khaimah Ceramics PSC
# and its subsidiaries

## Consolidated financial statements
*31 December 2014*

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## Consolidated financial statements

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# RAK Ceramics PSC

## Report of the Board of Directors

On financial performance during the year 2014

12 March 2015

**Dear Members,**

It is our pleasure to present the Business & Operations report for the year 2014, along with the Audited Consolidated Financial Statements as on 31 December 2014.

**An Eventful Year**

2014 has been an eventful year for the Group. Major shareholding changes took place in the month of June whereby an international private equity group, SAMENA CAPITAL (along with their consortium partners) became the single largest shareholder.

Corporate Governance has been further strengthened with board expansion from five to seven, creation of an Executive Committee, streamlining of subsidiary board structures and reconstitution of board committees including appointment of an expert to assist the audit committee.

A strategic review was undertaken to identify core and non-core activities. Tiles, Sanitaryware (SW), Tableware and Faucets have been identified as core activities. The strategy is to invest in and expand core businesses and exit non-core areas. Expansion programs have accordingly been launched in the UAE, Bangladesh and India. The company is focused on increasing its market share in both existing and new markets globally, and aspires to achieve a global leadership position across all ceramics lifestyle solutions.

A Board mandated Value Creation Plan was launched with 19 identified initiatives to improve performance and enhance shareholder value. Through these initiatives, RAK Ceramics aims to; increasing volumes in core markets; increasing presence and penetration by strengthening distribution channels; enhancing pricing and positioning to reflect quality and value; improving operating efficiencies and optimizing its cost base to drive improved profitability and cash flows.

**Results**

During the period, the Company continued executing its re-focused strategy to scale down less profitable Non-Core businesses and focus on Core operations. During the year, the group has entered into non-binding agreements to sell two of the subsidiaries, Ras Al Khaimah Ceramics Sudanese Investment Company in Sudan and RAK Pharmaceuticals Private Limited in Bangladesh. Accordingly, these companies have been classified as discontinued operations/held for sale in the 2014 Consolidated Financial Statements. We expect to close the sale of discontinued operations during the first quarter of 2015.

Core ceramic tiles, sanitaryware & tableware recorded revenues (including discontinued operations) of AED 2,807 million (AED 2,860 million in 2013). The consolidated revenues were AED 3,125 million (AED 3,348 million in 2013). Non-Core revenues of AED 482 million (including discontinued operations) decreased by 26.3%*. With tableware being identified as a core business, RAK Porcelain LLC has been consolidated from 1st October 2014.

2014 presented own set of challenges. On revenue side, Saudi tiles sales volume declined by 5 million sqm due to labor issues and increased competition from 9 new local producers. Euro depreciation and slow

European economic activity impacted European sales. On cost side, natural gas cost in the UAE increased 26% over 2013 (from $ 4.97 / mmbtu to $ 6.28 / mmbtu).

Notwithstanding the challenging market conditions, volatile macro environment and cost push from natural gas price increase in the UAE, the strategic alignment and value creation initiatives have resulted in 2014 EBITDA increasing 2.9% to AED 584 million (AED 568 million in 2013).
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The net profit for the period from the continuing operations amounted to AED 328 million (AED 281 million in 2013): an increase of 16.6%. After the loss from discontinued operations, the net profit was AED 282 million (AED 272 million in 2013): an increase of 3.5%. Adjusted net profit (excluding hyperinflation impact in Sudan and Iran) was AED 338 million (AED 297 million in 2013): an increase of 14%.

**Financial highlights for the year 2014**

| **Particulars** | **Unit** | **YTD 2014 December 31** | **YTD 2013 December 31** | **Change** |
|---|---|---|---|---|
| Core Net Revenue | AED Mio | 2,807.2 | 2,860.2 | (1.9%) |
| Non-Core Net Revenue | AED Mio | 482.4 | 654.6 | (26.3%) |
| Less:- Revenue from Discontinued Operations | AED Mio | (165.2) | (166.0) | (0.5%) |
| Total Net Revenue | AED Mio | 3,124.5 | 3,348.8 | (6.7%) |
| Gross Profit | AED Mio | 809.0 | 898.9 | (10.0%) |
| GP Margin | % | 25.9% | 26.8% | (90 bps) |
| EBITDA | AED Mio | 584.4 | 567.8 | 2.9% |
| EBITDA Margin | % | 17.7 | 16.2 | 150 bps |
| Reported Net Income | AED Mio | 281.7 | 272.3 | 3.5% |
| Hyper-inflation adjustment | AED Mio | (56.6) | (24.4) | (132.0%) |
| Adjusted Net Income | AED Mio | 338.3 | 296.7 | 14.1% |
| Reported Profit after NCI (Minority) | AED Mio | 278.9 | 282.4 | (1.2%) |
| Reported Earnings per share | AED | 0.34 | 0.34 | - |
| Reported Earnings per share from Continuing Operations | AED | 0.39 | 0.35 | 11.4% |

* Core ceramic tiles, sanitary ware & table ware revenue represents consolidated sales from production locations. Non-core revenue represents contracting & other activities.

**Financial highlights for the year 2014 contd….**

| Particulars | Unit | 2014 December 31 | 2013 December 31 | Change |
|---|---|---|---|---|
| Total Assets | AED Mio | 5,999.9 | 5,679.3 | 5.6% |
| Share Capital** | AED Mio | 817.5 | 743.2 | 10.0% |
| Shareholders' Equity | AED Mio | 2,808.3 | 2,473.5 | 13.5% |
| Net Debt # | AED Mio | 1,411.2 | 1,324.6 | 6.5% |
| Net Debt / EBITDA | Times | 2.41 | 2.33 | 3.4% |
| Cost of Debt | % | 3.0% | 4.2% | (120 bps) |

** Share capital increased on account of 10% stock dividend announced in April 2014.
# Includes Cash in hand & at bank of RAK Sudan which is classified as Assets Held for Sale.

**Corporate Social Responsibility & Other Activities during the year**

The company continued to re-affirm its commitment towards the protection of environment and socio-economic development in the following ways:

- Supported the Rashid Center for Disabled in publishing their book "Hopes and Expectations of our Handicapped Children" aiming to support children with special needs.
- Participated in Can Collection Day, organized by the Emirates Environmental Group, whereby the employees collected waste aluminum cans from within the company premises which were then sent for recycling.
- Co-sponsored RAK Terry Fox Run, aimed towards raising funds for cancer research projects in the UAE University Hospital, Al Ain.
- Sponsored SP Jain Blood Donation Campaign, aimed at saving thousands of lives through blood transfusion and motivating youth to give back to the community by donating blood.
- Observed Earth Hour by switching off the lights in its production facilities, employee accommodation building and offices for one hour in order to spread awareness of environmental sustainability.
- Sponsored the "7th Al Basma Camp for Diabetic Children", organized by RAK Medical District to promote health awareness among community members through programs and events.
- Hosted educational tours comprising of showroom and industry visits from various local universities and schools like SP Jain-Dubai, Higher College of Technology-RAK, Dibba Fujairah School and RAK Academy School. The tours were aimed at providing first-hand knowledge about the organizational structure and modes of operation in the ceramics industry and bridging the gap between classroom and work.
- Became the first ceramics manufacturer to produce a GRI-G4 Sustainability Report adopting the latest global reporting best practice in sustainability management.

- Organized a Health Screening Program for factory employees. The program was organized in line with RAK Ceramics' HSSE initiatives to avoid ill-health at work place.
- Launched in collaboration with RAK Hospital and Arabian Wellness and Lifestyle Management, the Health Awareness Booklet containing symptoms, health tips and actions to be taken in emergency situations.
- Organized a tree planting ceremony to commemorate World Environment Day by planting another 2,000 trees in and around the RAK Ceramics manufacturing location in Ras Al Khaimah.

**Future Outlook**

RAK Ceramics is focused on improving profitability and its sales and distribution strategy. This involves significant expansion in the Sanitary Ware business, continued disposal of non-core activities and investing in our distribution platform in Saudi Arabia.

Sanitary ware: capacity expansion by increasing India's SW capacity from 2,100 pcs/day to 3,000 pcs/day (to be commissioned in H2 2015); increasing Bangladesh's SW capacity from 3,350 pcs/day to 4,350 pcs/day (to be commissioned in Mar 2015) and UAE SW expansion of 1,800 pcs/day (Aug 2015).

Saudi Arabian distribution platform: We are investing in a full sales and distribution capability in Saudi Arabia, which includes building a showroom, acquiring new dealer relationships and employing a sales & distribution team on the ground. As a result RAK Ceramics will have a wider footprint in the country under a fully controlled distribution capability. We expect to see a significant increase in sales as a result.

**Financial Reporting**

Consolidated Financial Statements of the Company prepared in accordance with International Financial Reporting Standards (IFRSs), fairly present its financial position, the result of its operations, cash flows and changes in equity.

Appropriate accounting policies have been consistently applied and accounting estimates are based on reasonable and prudent judgments. There are no matters which call into question the company's ability to continue as a going concern.

**Note of Thanks**

The Board would like to take this opportunity to thank Government bodies, the shareholders, investors, bankers & employees for their continuous commitment, co-operation, confidence & continuous support in achieving the company's objectives.

12 MAR 2015

**Chairman** **Director** **Chief Executive Officer**

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## Independent auditors' report

The Shareholders
Ras Al Khaimah Ceramics PSC

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Ras Al Khaimah Ceramics PSC ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of profit or loss and other comprehensive income (comprising a separate consolidated income statement and a consolidated statement of profit or loss and other comprehensive income), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's responsibility for the consolidated financial statements*

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

*Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Independent auditors' report (continued)**

**Report on other legal and regulatory requirements**

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law No. 8 of 1984 (as amended) and the Articles of Association of the Company; that proper financial records have been kept by the Company; a physical count of inventories was carried out by the management in accordance with established principles; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2014, which may have had a material adverse effect on the business of the Company or its financial position.

KPMG

KPMG Lower Gulf Limited
Muhammad Tariq
Registration No. 793
Dubai, United Arab Emirates

Date: 12 MAR 2015

# Ras Al Khaimah Ceramics PSC and its subsidiaries

## Consolidated income statement
*for the year ended 31 December 2014*

| | *Note* | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | *6* | **3,124,527** | 3,348,838 |
| Cost of sales | *7* | **(2,315,490)** | (2,449,972) |
| **Gross profit** | | **809,037** | 898,866 |
| Administrative and general expenses | *8* | **(242,400)** | (250,881) |
| Selling and distribution expenses | *9* | **(326,708)** | (371,126) |
| Other income | *10* | **69,022** | 59,857 |
| Profit / (loss) on net monetary position | *34* | **10,524** | (659) |
| **Results from operating activities** | | **319,475** | 336,057 |
| Finance expense | *11* | **(87,190)** | (92,682) |
| Finance income | *11* | **17,250** | 26,130 |
| Share in profit of equity accounted investees | *15* | **38,008** | 30,619 |
| Gain on disposal of subsidiary | *5(b)* | **11,093** | - |
| Loss on disposal of equity accounted investees | *15(ii)* | **(6,812)** | - |
| Gain on settlement of related party balances | *28(i)* | **59,082** | - |
| **Profit before tax from continuing operations** | | **350,906** | 300,124 |
| Tax expense | *29* | **(23,381)** | (19,336) |
| **Profit from continuing operations** | | **327,525** | 280,788 |
| **Discontinued operations** | | | |
| Loss from discontinued operations | *21* | **(45,826)** | (8,504) |
| **Profit for the year** | | **281,699** | 272,284 |
| *Profit attributable to:* | | | |
| Owners of the Company | | **278,921** | 282,396 |
| Non-controlling interests | | **2,778** | (10,112) |
| | | **281,699** | 272,284 |
| **Earnings per share** | | | |
| Basic and diluted earnings per share (AED) | *23* | **0.34** | 0.34 |
| **Earnings per share – continuing operations** | | | |
| Basic and diluted earnings per share (AED) | *23* | **0.39** | 0.35 |

The notes on pages 14 to 86 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 5 and 6.

# Ras Al Khaimah Ceramics PSC and its subsidiaries

## Consolidated statement of profit or loss and other comprehensive income
*for the year ended 31 December 2014*

| | *Note* | **2014 AED'000** | 2013 AED'000 Restated* |
|---|---|---|---|
| **Profit for the year** | | **281,699** | 272,284 |
| **Other comprehensive income** | | | |
| ***Items that may be reclassified subsequently to profit or loss:*** | | | |
| Foreign currency translation differences | | **(33,114)** | (46,509) |
| Hyperinflation effect | *34 & 37* | **204,585** | 169,707 |
| | | ---------- | ---------- |
| **Total comprehensive income for the year** | | **453,170** | 395,482 |
| | | ====== | ====== |
| *Total comprehensive income attributable to:* | | | |
| Owners of the Company | | **448,726** | 372,479 |
| Non-controlling interests | | **4,444** | 23,003 |
| | | ---------- | ---------- |
| **Total comprehensive income for the year** | | **453,170** | 395,482 |
| | | ====== | ====== |

* Refer note 37.

The notes on pages 14 to 86 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 5 and 6.

# Ras Al Khaimah Ceramics PSC and its subsidiaries

## Consolidated statement of financial position

*as at 31 December 2014*

| | *Note* | 2014 AED'000 | 2013 AED'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *12* | **1,180,605** | 1,117,412 |
| Capital work in progress | *12* | **73,268** | 51,568 |
| Goodwill | *5(i)* | **50,356** | 50,356 |
| Intangible assets | *13* | **19,391** | 20,459 |
| Investment properties | *14* | **1,113,879** | 222,164 |
| Investments in equity accounted investees | *15* | **151,276** | 214,329 |
| Long term receivable from related parties | *28* | **-** | 205,162 |
| Deferred tax asset | *29* | **268** | 2,678 |
| | | **2,589,043** | 1,884,128 |
| **Current assets** | | | |
| Inventories | *16* | **1,139,391** | 1,115,693 |
| Trade and other receivables | *17* | **1,170,055** | 1,110,656 |
| Contract work-in-progress | *18* | **28,598** | 82,304 |
| Due from related parties | *28* | **292,797** | 965,420 |
| Derivative financial instruments | *27* | **29** | 1,265 |
| Cash in hand and at bank | *19* | **448,346** | 499,518 |
| Assets held for sale | *20* | **331,616** | 20,312 |
| | | **3,410,832** | 3,795,168 |
| **Total assets** | | **5,999,875** | 5,679,296 |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | *22* | **817,523** | 743,202 |
| Reserves | *22* | **1,990,785** | 1,730,260 |
| **Equity attributable to owners of the Company** | | **2,808,308** | 2,473,462 |
| Non-controlling interests | *31* | **226,505** | 165,973 |
| **Total equity** | | **3,034,813** | 2,639,435 |
| **Non-current liabilities** | | | |
| Long-term bank loans | *24* | **770,388** | 914,791 |
| Provision for employees' end of service benefits | *26* | **78,864** | 77,939 |
| Deferred tax liabilities | *29* | **8,755** | 7,440 |
| | | **858,007** | 1,000,170 |
| **Current liabilities** | | | |
| Short-term bank borrowings | *24* | **1,099,182** | 909,342 |
| Trade and other payables | *25* | **806,915** | 980,150 |
| Billings in excess of valuation | *18* | **3,316** | 2,330 |
| Provision for taxation | *29* | **103,135** | 87,260 |
| Due to related parties | *28* | **63,697** | 59,109 |
| Liabilities held for sale | *20* | **30,810** | 1,500 |
| | | **2,107,055** | 2,039,691 |
| **Total liabilities** | | **2,965,062** | 3,039,861 |
| **Total equity and liabilities** | | **5,999,875** | 5,679,296 |

The notes on pages 14 to 86 are an integral part of these consolidated financial statements.

The consolidated financial statements were authorised for issue on behalf of the Board of Directors on 12 MAR 2015

Chairman | Director | Chief Executive Officer

The independent auditors' report is set out on pages 5 and 6.

# Ras Al Khaimah Ceramics PSC and its subsidiaries

## Consolidated statement of cash flows
*for the year ended 31 December 2014*

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year before tax | **305,146** | 291,620 |
| *Adjustments for:* | | |
| Share in profit of equity accounted investees | **(38,008)** | (30,619) |
| Loss on net monetary position | **18,825** | 659 |
| Gain on settlement of related party balances | **(59,082)** | - |
| Interest expense | **62,993** | 78,794 |
| Interest income | **(32,376)** | (26,129) |
| Gain on sale of property, plant and equipment | **(2,599)** | (287) |
| Depreciation on property, plant and equipment | **195,094** | 145,857 |
| Capital work in progress written off | **9,045** | 2,473 |
| Amortisation of intangible assets | **2,904** | 2,558 |
| Depreciation on investment property | **7,278** | 7,278 |
| Provision for slow moving and obsolete stock | **27,476** | 8,374 |
| Write back of old trade payable balances | **-** | (23,893) |
| Provision for employees' end-of-service benefits | **25,590** | 21,479 |
| Impairment loss on trade receivables | **24,330** | 63,997 |
| Impairment loss on related party receivables | **36,041** | 12,875 |
| Gain on sale of investments at fair value through profit or loss | **-** | (148) |
| Loss on sale of investments classified as held for sale | **-** | 4,347 |
| Loss on disposal of equity accounted investees | **6,812** | - |
| Gain on sale of a subsidiary | **(11,093)** | - |
| | **578,376** | 559,235 |
| Change in: | | |
| - inventories (including work in progress) | **7,588** | (78,243) |
| - trade and other receivables | **(106,188)** | 19,277 |
| - due from related parties (including long term) | **28,862** | 104,695 |
| - deferred tax assets | **2,410** | (69) |
| - due to related parties | **(4,577)** | (101,915) |
| - assets held for sale | **-** | 8,283 |
| - trade and other payables (including billings in excess of valuation) | **(209,182)** | 36,320 |
| - derivative financial instruments | **1,236** | (5,227) |
| - deferred tax liabilities | **1,315** | (1,379) |
| - liabilities held for sale | **-** | 43 |
| Employees' end of services benefits paid | **(26,808)** | (17,269) |
| Income tax paid | **(27,051)** | (19,396) |
| Currency translation adjustment | **(666)** | (14,803) |
| **Net cash generated from operating activities** | **245,315** | 489,552 |

# Ras Al Khaimah Ceramics PSC and its subsidiaries

## Consolidated statement of cash flows (continued)

*for the year ended 31 December 2014*

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| **Cash flows from investing activities** | | |
| Acquisition of property, plant and equipment | **(282,291)** | (112,534) |
| Proceeds from sale of investments at fair value through profit or loss | **-** | 249 |
| Proceeds from disposal of property, plant and equipment | **3,911** | 2,736 |
| Acquisition of intangible assets | **(6,418)** | (4,361) |
| Interest received | **29,368** | 16,251 |
| Investment made in equity accounted investees | **-** | (14,730) |
| Dividend received from equity accounted investees | **32,179** | 33,299 |
| Sale proceeds of held for sale assets | **-** | 8,948 |
| Cash acquired as part of conversion from equity accounted investees into subsidiary | **50,139** | 8,051 |
| Proceeds from sale of equity accounted investees | **10,286** | - |
| Addition to investment property | **(52)** | - |
| Proceeds from sale of a subsidiary | **726** | - |
| **Net cash used in investing activities** | **(162,152)** | (62,091) |
| **Cash flows from financing activities** | | |
| Long term bank loans availed | **165,330** | 1,192,627 |
| Long term bank loans repaid | **(295,880)** | (1,094,211) |
| Change in bank deposits | **31,829** | 57,543 |
| Net movement in short term bank borrowings | **94,378** | (201,889) |
| Interest paid | **(62,994)** | (78,794) |
| Dividend paid to non-controlling interests | **(7,246)** | (6,319) |
| Remuneration paid to the Board of Directors | **(2,400)** | (2,400) |
| Funds invested by non-controlling interests | **751** | 1,602 |
| Dividend paid | **(111,480)** | (148,640) |
| **Net cash used in financing activities** | **(187,712)** | (280,481) |
| **Net (decrease)/increase in cash and cash equivalents** | **(104,549)** | 146,980 |
| Cash and cash equivalents at the beginning of the year | **436,004** | 289,024 |
| **Cash and cash equivalents at the end of the year** | **331,455** | 436,004 |
| These comprise the following: | | |
| Cash in hand and at bank (net of bank deposits on lien) | **453,741** | 463,001 |
| Bank overdraft | **(122,286)** | (26,997) |
| | **331,455** | 436,004 |

The notes on pages 14 to 86 are an integral part of these consolidated financial statements.

The independent auditors' report on is set out on pages 5 and 6.

# Ras Al Khaimah Ceramics PSC and its subsidiaries

## Consolidated statement of changes in equity

*for the year ended 31 December 2014*

| | ----Attributable to owners of the Company---- | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital AED'000** | **Share premium AED'000** | **Legal reserve AED'000** | **Translation reserve AED'000** | **Hyper-inflation reserve AED'000** | **General reserve AED'000** | **Capital reserve AED'000** | **Retained earnings AED'000** | **Total reserves AED'000** | **Total AED'000** | **Non-controlling interests AED'000** | **Total equity AED'000** |
| Balance at 1 January 2013 (refer note 37) | 743,202 | 221,667 | 287,983 | (53,668) | (365,225) | 82,805 | 55,044 | 1,138,339 | 1,366,945 | 2,110,147 | 147,818 | 2,257,965 |
| ***Total comprehensive income for the year:*** | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | 282,396 | 282,396 | 282,396 | (10,112) | 272,284 |
| Other comprehensive income | - | - | - | (14,961) | (30,722) | - | - | - | (45,683) | (45,683) | (826) | (46,509) |
| **Total comprehensive income for the year (as previously stated)** | - | - | - | (14,961) | (30,722) | - | - | 282,396 | 236,713 | 236,713 | (10,938) | 225,775 |
| Restatement (refer notes 34 & 37) | - | - | - | - | 135,766 | - | - | - | 135,766 | 135,766 | 33,941 | 169,707 |
| **Total comprehensive income for the year (restated)** | - | - | - | (14,961) | 105,044 | - | - | 282,396 | 372,479 | 372,479 | 23,003 | 395,482 |
| **Other equity movements** | | | | | | | | | | | | |
| Transfer to legal reserve | - | - | 38,184 | - | - | - | - | (38,184) | - | - | - | - |
| Allocation of legal reserve on acquisition of a subsidiary (note 5(a)) | - | - | 27,688 | - | - | - | - | (27,688) | - | - | - | - |
| **Transactions with owners of the Company** | | | | | | | | | | | | |
| ***Contributions by and distributions to owners of the Company*** | | | | | | | | | | | | |
| Directors' fees | - | - | - | - | - | - | - | (2,400) | (2,400) | (2,400) | - | (2,400) |
| Dividends distributed to non-controlling interests | - | - | - | - | - | - | - | - | - | - | (6,319) | (6,319) |
| Dividend declared and paid | - | - | - | - | - | - | - | (148,640) | (148,640) | (148,640) | - | (148,640) |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | | | | | | |
| Funds invested by non-controlling interests | - | - | - | - | - | - | - | - | - | - | 1,602 | 1,602 |
| Acquisition of subsidiary under common control (refer note (5(a)) | - | - | - | - | - | - | - | 141,876 | 141,876 | 141,876 | - | 141,876 |
| Disposal of subsidiaries (refer note 5(b)) | - | - | - | - | - | - | - | - | - | - | (131) | (131) |
| **At 31 December 2013 (restated)** | 743,202 | 221,667 | 353,855 | (68,629) | (260,181) | 82,805 | 55,044 | 1,345,699 | 1,730,260 | 2,473,462 | 165,973 | 2,639,435 |

# Ras Al Khaimah Ceramics PSC and its subsidiaries

## Consolidated statement of changes in equity (continued)

*for the year ended 31 December 2014*

| | Share capital AED'000 | Share premium AED'000 | Legal reserve AED'000 | Translation reserve AED'000 | Hyper-inflation related AED'000 | General reserve AED'000 | Capital reserve AED'000 | Retained earnings AED'000 | Total reserves AED'000 | Total AED'000 | Non-controlling interests AED'000 | Total equity AED'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ---Attributable to owners of the Company--- | | | | | | | | | | | |
| Balance at 1 January 2014 (restated) | 743,202 | 221,667 | 353,855 | (68,629) | (260,181) | 82,805 | 55,044 | 1,345,699 | 1,730,260 | 2,473,462 | 165,973 | 2,639,435 |
| ***Total comprehensive income for the year:*** | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | - | 278,921 | 278,921 | 278,921 | 2,778 | 281,699 |
| **Other comprehensive income** | | | | | | | | | | | | |
| Foreign currency translation differences | - | - | - | (10,695) | (16,875) | - | - | - | (27,570) | (27,570) | (5,544) | (33,114) |
| Hyperinflation adjustment (refer notes 34 & 37) | - | - | - | - | 197,375 | - | - | - | 197,375 | 197,375 | 7,210 | 204,585 |
| **Total comprehensive income for the year** | - | - | - | (10,695) | 180,500 | - | - | 278,921 | 448,726 | 448,726 | 4,444 | 453,170 |
| **Other equity movements** | | | | | | | | | | | | |
| Transfer to legal reserve | - | - | 42,405 | - | - | - | - | (42,405) | - | - | - | - |
| **Transactions with owners of the Company directly recorded in equity** | | | | | | | | | | | | |
| ***Contributions by and distributions to owners of the Company*** | | | | | | | | | | | | |
| Directors' fees | - | - | - | - | - | - | - | (2,400) | (2,400) | (2,400) | - | (2,400) |
| Dividends distributed to non-controlling interests | - | - | - | - | - | - | - | - | - | - | (7,246) | (7,246) |
| Dividend declared and paid | | | | | | | | (111,480) | (111,480) | (111,480) | - | (111,480) |
| Bonus shares issued | 74,321 | - | - | - | | - | - | (74,321) | (74,321) | - | - | - |
| ***Changes in ownership interests in subsidiaries*** | | | | | | | | | | | | |
| Funds invested by non-controlling interests | - | - | - | - | - | - | - | - | - | - | 751 | 751 |
| Increase in non-controlling interests due to acquisition of subsidiary (refer note 5(a)) | - | - | - | - | - | - | - | - | - | - | 62,583 | 62,583 |
| **At 31 December 2014** | **817,523** | **221,667** | **396,260** | **(79,324)** | **(79,681)** | **82,805** | **55,044** | **1,394,014** | **1,990,785** | **2,808,308** | **226,505** | **3,034,813** |

The notes on pages 14 to 86 are an integral part of these consolidated financial statements.
In accordance with the Ministry of Economy interpretation of Article 118 of the UAE Federal Law No. 8 of 1984 (as amended), Directors' fees have been treated as an appropriation from equity.

## 1 Reporting entity

Ras Al Khaimah Ceramics PSC ("the Company" or "the Holding Company") was incorporated under Emiri Decree No. 6/89 dated 26 March 1989 as a limited liability company in the Emirate of Ras Al Khaimah, UAE. Subsequently, under Emiri Decree No. 9/91 dated 6 July 1991, the legal status of the Company was changed to Public Shareholding Company. The registered address of the Company is P.O. Box 4714, Al Jazeerah Al Hamra City, Ras Al Khaimah, United Arab Emirates. The Company is listed on Abu Dhabi Securities Exchange, UAE.

These consolidated financial statements as at and for the year ended 31 December 2014 comprise the Company and its subsidiaries (collectively referred to as "the Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group's subsidiaries and equity accounted investees, their principal activities and the Group's interest have been disclosed in note 36 to these consolidated financial statements.

The principal activities of the Company are manufacturing and sale of a variety of ceramic products including tiles, bathroom sets and sanitary wares. The Company and certain entities in the Group are also engaged in investing in other entities, in UAE or globally, that undertake similar or ancillary activities. Accordingly, the Company also acts as a Holding Company of the Group entities. The Group is also engaged in contracting and other industrial manufacturing activities.

On 15 June 2014, one of the major shareholders of the Company sold 250 million shares to a third party representing 30.58% of the share capital after taking into account 10% bonus shares as approved by the shareholders at the Annual General Meeting on 17 April 2014.

## 2 Basis of preparation

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

### (b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except in respect of the following which are measured as follows:

- derivative financial instruments at fair value;
- held for sale assets and liabilities at lower of carrying amounts and fair value less cost to sell; and
- investments at fair value through profit or loss at fair value.

### (c) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirham ("AED"), which is the functional currency of the Company. All financial information presented in AED has been rounded to the nearest thousand, unless otherwise indicated.

### (d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

## 2 Basis of preparation (continued)

### (d) Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 38.

### (e) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Management have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. Management regularly reviews significant unobservable inputs and valuation adjustment. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirement of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 20–assets / liabilities held for sale;

Note 14 – investment property; and

Note 33 – financial instruments.

## 3 Changes in accounting policies

Effective 1 January 2014, following new / amended International Financial Reporting Standards (IFRSs) have become effective and have been applied in preparing these consolidated financial statements:

- Improvement / amendments to IFRSs:
  - IFRS 10: Consolidated financial statements, IFRS 12: Disclosure of Interests in Other Entities and IAS 27: Separate Financial Statements.
  - IAS 32: Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities.
  - IAS 36: Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets.
  - IAS 39: Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting.
  - IFRIC 21: Levies: Interpretation relating to levies impose by legislation.

## 4 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities except for the changes as per note 3 and note 37.

**Basis of consolidation**

These consolidated financial statements comprise the consolidated statement of financial position and the consolidated results of operations of the Company and its subsidiaries (collectively referred to as “the Group”) on a line by line basis together with the Group’s share in the net assets of its equity accounted investees. The principal subsidiaries, associates and jointly controlled entities have been disclosed in note 36 to the consolidated financial statements.

***Business combinations***

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred; plus the recognised amount of any non-controlling interests in the acquiree; less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Any gain on the bargain purchase is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Consideration transferred also includes the fair value of any contingent consideration. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

## 4 Significant accounting policies (continued)

**Basis of consolidation (continued)**

***Business combinations (continued)***

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Transaction costs that the Group incurs in connection with a business combination are expensed as incurred, other than those associated with the issue of debt or equity securities.

***Acquisition of entities under common control***

Business combinations arising from the acquisition of interests in entities that are under the common control of the shareholders that control the Group are accounted for using book values of the acquired entities on the date of acquisition of interest in these entities. The components of equity of the acquired entities are added to the same components within the Group equity and any gain/loss arising is recognised directly in equity. Non-controlling interests in the acquired entities, on the date of acquisition, are separately disclosed in the Group's financial statements

***Subsidiaries***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statement of the Group from the date on which control commences until the date on which control ceases.

***Non-controlling interests ("NCI")***

The Group measures any non-controlling interests at its proportionate interest in the identifiable net assets of the acquiree.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

***Loss of control***

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

***Investments in equity accounted investees***

The Group's interest in equity accounted investees comprises interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

## 4 Significant accounting policies (continued)

**Basis of consolidation (continued)**

***Stepped acquisition***

When an acquisition is completed by a series of successive transactions, the Group re-measures its previously held equity interest in the aquiree at its acquisition date, fair value and recognises the resulting gain or loss, if any, in profit or loss.

Any amount recognised in other comprehensive income related to the previously held equity interest is recognised on the same basis as would be required if the Group had disposed of the previously held equity interest directly.

***Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**Hyperinflation**

The financial statements of subsidiary companies whose functional currency is the currency of a hyperinflationary economy are adjusted for inflation in accordance with the procedures described in note 34 prior to their translation to AED. Once restated, all items of the financial statements are converted to AED using the closing exchange rate. Amounts shown for prior years for comparative purposes are not restated at consolidation level as the presentation currency of the Group is not of a hyperinflationary economy. On consolidation, the effect of price changes in the prior periods on the financial statements of the subsidiary has been recognised in other comprehensive income and presented in the hyperinflation reserve in equity (refer notes 22(iv) and 37).

To determine the existence of hyperinflation, the Group assesses the qualitative characteristics of the economic environment of the country, such as the trends in inflation rates over the previous three years.

The financial statements of subsidiaries whose functional currency is the currency of a hyperinflationary economy are adjusted to reflect the changes in purchasing power of the local currency, such that all items in the statement of financial position not expressed in current terms (non-monetary items) are restated by applying a general price index at the reporting date and all income and expenses are restated quarterly by applying appropriate conversion factors as defined in note 34. The difference between initial adjusted amounts is taken to profit or loss.

## 4 Significant accounting policies (continued)

**Foreign currency**

***Foreign currency transactions***

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are not translated.

Foreign currency differences arising on translation are generally recognised in profit or loss, except for the differences arising on the translation of available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss), financial liability designated as a hedge of the net investment in a foreign operation to that extent that the hedge is effective and a qualifying cash flow hedge to the extent that the hedge is effective. These differences are recognised in other comprehensive income.

***Foreign operations***

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to AED at exchange rates at the reporting date. The income and expenses of foreign operations are translated to AED at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (referred as “translation reserve” in the consolidated financial statements) in equity. In case of foreign currency translation differences pertaining to hyperinflationary economies, these differences are presented in hyperinflation reserve in equity (refer notes 22(iv) and 37). However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered to form part of a net investment in the foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

## 4 Significant accounting policies (continued)

### Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loan and receivables.

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

***Non-derivative financial assets and financial liabilities – recognition and derecognition***

The Group initially recognises loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfer nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred assets. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

***Non-derivative financial assets – measurement***

*Financial assets at fair value through profit or loss*

A financial asset is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Directly attributable transaction costs are recognized in profit and loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss.

*Loans and receivables*

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

*Cash and cash equivalents*

In the consolidated statement of cash flows, cash and cash equivalents includes cash balances and call deposits with original maturities of three month or less from the acquisition date. Fixed deposits under lien against certain bank facilities are not included as part of cash and cash equivalents.

## 4 Significant accounting policies (continued)

**Financial instruments (continued)**

***Non-derivative financial liabilities -measurement***

Non- derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

***Share capital***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

***Derivative financial instruments and hedge accounting***

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

## 4 Significant accounting policies (continued)

**Financial instruments (continued)**

***Derivative financial instruments and hedge accounting (continued)***

*Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognized under other comprehensive income. When the forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability occurs, the associated cumulative gain or loss is removed from other comprehensive income and is included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecasted transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognized directly in other comprehensive income are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from other comprehensive income and recognized in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognized immediately in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealized gain or loss recognized in other comprehensive income is recognized immediately in profit or loss.

*Other non-trading derivatives*

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

**Property, plant and equipment**

***Recognition and measurement***

Items of property plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (see accounting policy on impairment), if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use; and
- Capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

## 4 Significant accounting policies (continued)

**Property, plant and equipment (continued)**

***Recognition and measurement (continued)***

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

***Reclassification to investment property***

When the use of a property changes from owner-occupied to investment property, the property is reclassified as investment property considering that the accounting policy for investment property is the 'Cost Model' in accordance with IAS 40.

***Subsequent cost***

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance is expensed as incurred.

***Depreciation***

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are available for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

| | **Life (years)** |
|---|---|
| • Buildings | 30-35 |
| • Plant and equipment | 5-15 |
| • Furniture and fixtures | 3 |
| • Vehicles | 3-5 |
| • Roads and asphalting | 10 |
| • Quarry and land development | 10 |
| • Office equipment | 3 |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. The useful life and residual value of certain items of property, plant and equipment were revised in 2013 (refer note 12(iii)).

## 4 Significant accounting policies (continued)

**Capital work in progress**

Capital work in progress is stated at cost less impairment, if any, until the construction is completed. Upon completion of construction, the cost of such assets together with the cost directly attributable to construction, including capitalised borrowing costs are transferred to the respective class of asset. No depreciation is charged on capital work in progress.

**Intangible assets**

***Goodwill***

Goodwill that arises on the acquisition of subsidiaries is presented in the statement of financial position. For the measurement of goodwill at initial recognition refer accounting policy on business combination.

*Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

***Other intangible assets***

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses, if any.

*Subsequent expenditure*

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

***Amortisation***

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives of 5 to 15 years from the date that they are available for use.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or rendering services or for administrative purposes.

Investment property is accounted for using the “Cost Model” under the International Accounting Standard 40 “*Investment Property*” and is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on buildings is charged over its estimated useful life of 30 to 35 years.

## 4 Significant accounting policies (continued)

**Investment property (continued)**

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

The cost of investment property acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets; comprises the fair value of the asset received or asset given up. If the fair value of the asset received and asset given up can be measured reliably, the fair value of the asset given up is used to measure cost, unless the fair value of the asset received is more clearly evident.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment or inventory, the transfer is effected at the carrying value of such property at the date of reclassification.

***Leased assets***

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

**Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

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

**Construction contracts in progress / Billings in excess of valuation**

Construction contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Losses expected on completion of a contract are recognised immediately in profit or loss. For contracts where progress billings exceed contract revenue, the excess is included in current liabilities as billings in excess of valuations.

## 4 Significant accounting policies (continued)

### Impairment

***Non-derivative financial assets***

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

*Financial assets measured at amortised cost*

The Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

*Equity accounted investees*

An impairment loss in respect of an equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

## 4 Significant accounting policies (continued)

### Impairment (continued)

***Non financial assets***

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### Employee benefits

***Short- term employee benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

***Defined contribution plans***

Obligations for contributions to defined contribution plans are recognised as the related services are provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

## 4 Significant accounting policies (continued)

**Employee benefits (continued)**

***Terminal benefits***

The provision for staff terminal benefits is based on the liability that would arise if the employment of all staff were terminated at the reporting date and is calculated in accordance with the provisions of UAE Federal Labour Law and the relevant local laws applicable to overseas subsidiaries. Management considers these as long-term obligations and accordingly they are classified as long-term liabilities.

**Provisions**

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

**Warranties**

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

**Assets and liabilities held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Immediately before classification as held-for-sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's other accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any equity accounted investee is no longer equity accounted.

**Discontinued operation**

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

## 4 Significant accounting policies (continued)

**Revenue**

***Sale of goods***

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

***Rendering of services***

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

***Construction contracts***

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of the construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. The percentage of completion is estimated on the basis of proportion that the actual cost bears to the total estimated contract cost. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

***Rental income***

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

***Dividend income***

Dividend income is recognised in profit or loss on the date that the Group’s right to receive the payment is established.

**Finance income and finance costs**

Finance income comprises interest income on fixed deposits, amounts due from related parties and trade receivables. Interest income is recognised in profit or loss as it accrues, using the effective interest rate method.

## 4 Significant accounting policies (continued)

**Finance income and finance costs (continued)**

Finance cost comprises interest expense on bank borrowings and amounts due to related parties. All borrowing costs are recognised in profit or loss using the effective interest rate method. However, borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

**Tax**

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

***Current tax***

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

***Deferred tax***

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying value of assets and liabilities using tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

## 4 Significant accounting policies (continued)

**Zakat**

In respect of operations in certain subsidiaries and equity accounted investees, zakat is provided in accordance with relevant fiscal regulations. Zakat is recognised in profit or loss except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity.

The provision for zakat is charged to profit or loss. Additional amount, if any, that may become due on finalisation of an asset is accounted for in the year in which assessment is finalised.

**Leases**

***Lease payments***

In respect of finance lease, lease payments are apportioned between finance charges and reduction of lease liability so as to achieve a constant rate of interest on the remaining balance of liability. Finance charges are reflected in profit or loss.

Leases in terms of which the lessor effectively retains all risks and rewards of ownership are classified as operating lease. Operating leases payments are recognised as an expense in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**Earnings per share**

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

**Government grants**

Government grants are recognised at nominal value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in the profit or loss on a systematic basis in the same periods in which the expenses are recognised.

**Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Segment results that are reported to the Company's CEO (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

## 4 Significant accounting policies (continued)

**New standards and interpretations not yet adopted**

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2014; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt this standard early.

- IFRS 9 *Financial instruments* **-** IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

- IFRS 15 *Revenue from Contracts with Customers* **-** IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of abovementioned IFRSs.

## 5 Acquisition and disposal of subsidiaries and non-controlling interests

### (a) Acquisitions

***Acquisition of a subsidiary in 2014***

Effective 1 October 2014, due to change in composition of Board of Directors of RAK Porcelain LLC (a jointly controlled entity until 30 September 2014), the Group can now exercise control over the financial and operating policies of the investee. Considering that the Group has the power to control activities and operations of investee, the acquisition accounting had been done based on book values at the date when the Group acquired control. RAK Porcelain LLC is engaged mainly in the manufacturing of porcelain tableware. Also refer note 15.

In the period from acquisition of controlling interest in RAK Porcelain LLC up to 31 December 2014, the investee contributed revenue of AED 35.07 million and profit of AED 16.34 million to the Group's results.

## 5 Acquisition and disposal of subsidiaries and non-controlling interests (continued)

### (a) Acquisitions (continued)

***Acquisition of a subsidiary in 2014 (continued)***

The fair value which represents the book values of the identifiable assets and liabilities of RAK Porcelain LLC acquired by the Company were as follows:

| | **AED'000** |
|---|---|
| **Assets:** | |
| Property, plant and equipment | **34,848** |
| Investments in equity accounted investees | **12,396** |
| Inventory | **29,975** |
| Trade receivables | **48,185** |
| Prepayment and other receivables | **12,332** |
| Cash in hand and at bank | **50,139** |
| Total assets acquired | **187,875** |
| **Liabilities:** | |
| Due to related parties | **9,165** |
| Trade payables | **8,855** |
| Other liabilities | **1,238** |
| Provision for employee's end-of service benefits | **3,454** |
| Provision for expenses | **39,997** |
| Total liabilities acquired | **62,709** |
| Net assets acquired | **125,166** |
| Book value of pre-existing interest in RAK Porcelain LLC (refer note 15) | **62,583** |
| Increase in non-controlling interests | **62,583** |

***Acquisition of a subsidiary in 2013***

In 2013, the Company obtained control of Al Hamra Construction Company LLC (a jointly controlled entity until 31 December 2012) by transfer of 50 percent of the shares and voting rights in that entity from a related party at a nominal consideration of AED 100, thereby increasing its shareholding to 100%. Considering that the investee was under common control of the majority shareholders of the Company, the acquisition accounting had been done based on book values at the date of acquisition. Al Hamra Construction Company LLC is engaged mainly in the construction of commercial and residential properties.

## 5 Acquisition and disposal of subsidiaries and non-controlling interests (continued)

### (a) Acquisitions (continued)

***Acquisition of a subsidiary in 2013 (continued)***

The book values of the identifiable assets and liabilities of Al Hamra Construction LLC acquired by the Company were as follows:

| | Book value AED'000 |
|---|---|
| Total assets acquired | 530,612 |
| Total liabilities acquired | 246,860 |
| Net assets acquired | 283,752 |
| Consideration paid | - |
| Book value of pre-existing interest in Al Hamra Construction Company LLC (refer note 15) | (141,876) |
| Gain on acquisition recognised in equity | 141,876 |

### (b) Disposals

***Disposals of subsidiary in 2014***

During the current year, the Group disposed of its entire 100% shareholding in a subsidiary "PT RAK Minerals Indonesia" and recognised a profit of AED 11.09 million on disposal.

| | **Book value AED'000** |
|---|---|
| Total assets | **6,754** |
| Less: total liabilities | **17,121** |
| Net liabilities | **10,367** |
| Consideration received | **726** |
| Gain on disposal | **11,093** |

### 5 Acquisition and disposal of subsidiaries and non-controlling interests (continued)

**(b) Disposals (continued)**

***Disposals of subsidiaries in 2013***

During 2013, the Group disposed of its entire shareholding in two of its subsidiaries, namely RAK Food and Beverages Private Limited and Classic Porcelain Private Limited. The Group had an effective shareholding of 36.9% in both the entities. The resultant gain on disposal amounted to AED 0.15 million. Furthermore, the disposal resulted in a reduction in non-controlling interests of AED 0.13 million.

### (i) Goodwill

Goodwill amounting to AED 50.36 million was recognised on the acquisition of Ceramin FZC in 2012. Goodwill arising from a business combination is tested annually for impairment. The impairment tests are based on the “value in use” calculation. These calculations have used cash flow projections based on estimated operating results of the respective cash generating units. The key assumptions used to determine the values are as follows:

| | |
|---|---|
| Discount rate | 7.96% |
| Terminal value growth rate | 2% |
| Years of forecast | 5 years |
| Average annual growth rate | 2.28% |

Management considers that no reasonably possible change in key assumptions would result in having a value in use lower than the carrying amount of the respective cash generating unit.

### 6 Revenue

| | **2014** | 2013 |
|---|---|---|
| | **AED’000** | AED’000 |
| Sale of goods | **2,764,452** | 2,755,341 |
| Rendering of services | **105,735** | 139,879 |
| Construction contract revenue | **254,340** | 453,618 |
| | ------------ | ------------ |
| | **3,124,527** | 3,348,838 |
| | ======= | ======= |

## 7 Cost of sales

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Raw materials consumed | **1,006,732** | 1,179,833 |
| Provision for slow moving and obsolete inventory (refer note 16) | **27,476** | 4,478 |
| Direct labour | **281,265** | 261,976 |
| Power and fuel | **159,840** | 180,260 |
| LPG and natural gases | **253,991** | 227,700 |
| Depreciation (refer note 12) | **150,967** | 114,948 |
| Repairs and maintenance | **248,280** | 246,212 |
| Amortisation of intangible assets (refer note 13) | **-** | 123 |
| Sub-contractors' fee | **68,714** | 170,865 |
| Others | **118,225** | 63,577 |
| | **2,315,490** | 2,449,972 |

## 8 Administrative and general expenses

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Staff costs | **91,982** | 84,254 |
| Depreciation (refer note 12) | **22,926** | 19,841 |
| Depreciation on investment properties (refer note 14) | **7,278** | 7,278 |
| Telephone, postal and office supplies | **8,876** | 8,055 |
| Repairs and maintenance | **10,373** | 16,456 |
| Legal and professional fee | **14,714** | 9,237 |
| Rental cost | **6,656** | 8,060 |
| Utility expenses | **4,778** | 4,117 |
| Security charges | **2,852** | 3,808 |
| Amortisation of intangible assets (refer note 13) | **2,572** | 2,087 |
| Impairment loss on trade receivables / amounts due from related parties (refer note 33) | **65,265** | 76,872 |
| Others | **4,128** | 10,816 |
| | **242,400** | 250,881 |

## 9 Selling and distribution expenses

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Staff costs | **64,657** | 63,419 |
| Freight and transportation | **125,291** | 156,279 |
| Performance rebates | **82,552** | 84,102 |
| Advertisement and promotions | **37,237** | 47,627 |
| Travel and entertainment | **1,524** | 2,846 |
| Depreciation (refer note 12) | **928** | 2,449 |
| Others | **14,519** | 14,404 |
| | **326,708** | 371,126 |

## 10 Other income

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Rental income from investment properties (refer note 14) | **16,297** | 15,475 |
| Sale of scrap and miscellaneous items | **8,453** | 9,946 |
| Insurance claims | **255** | 238 |
| Gain on disposal of property, plant and equipment | **2,583** | 290 |
| Tax subsidies (i) | **1,221** | 746 |
| Capital gain on sale of investments | **-** | 148 |
| Supplier settlement discounts (ii) | **2,872** | 9,642 |
| Other miscellaneous income | **37,341** | 23,372 |
| | **69,022** | 59,857 |

(i) This represents sales tax and custom duty subsidies received by the Group entity in India.
(ii) Pertains to discounts received from suppliers as part of the settlement negotiations.

## 11 Finance income and expense

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| **Finance income** | | |
| Interest on fixed deposits | **5,356** | 6,554 |
| Net change in the fair value of derivatives (refer note 27(ii)) | **-** | 5,227 |
| Interest on amounts due from related parties (refer note 28) | **5,202** | 14,064 |
| Others | **6,692** | 285 |
| | **17,250** | 26,130 |
| **Finance expense** | | |
| Interest on bank borrowings | **56,864** | 75,711 |
| Interest on amounts due to related parties (refer note 28) | **37** | 774 |
| Net change in the fair value of derivatives (refer note 27(ii)) | **1,236** | - |
| Bank charges | **9,774** | 13,473 |
| Net foreign exchange loss | **19,279** | 2,724 |
| | **87,190** | 92,682 |
| Net finance expense recognised in profit or loss | **69,940** | 66,552 |

## 12 Property, plant and equipment

| | Land and buildings AED'000 | Plant and equipment AED'000 | Vehicles AED'000 | Furniture and fixtures AED'000 | Office equipment AED'000 | Road and asphalting AED'000 | Quarry and land development AED'000 | Capital work in progress AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | |
| Balance at 1 January 2013 | 548,040 | 2,303,582 | 70,838 | 36,976 | 32,476 | 17,888 | 129 | 42,269 | 3,052,198 |
| Hyperinflationary effect | 53,871 | 219,049 | 4,586 | 168 | 374 | 2,112 | - | - | 280,160 |
| Additions | 27,083 | 18,593 | 4,798 | 1,597 | 1,246 | 481 | - | 58,736 | 112,534 |
| Acquisition through business combination (refer not 5(a)) | 71,258 | 33,883 | 10,132 | 7,002 | 1,953 | - | - | - | 124,228 |
| Transfer to intangible assets | - | - | - | - | - | - | - | (11,406) | (11,406) |
| Transfer from capital work in progress | 3,315 | 22,946 | 325 | 703 | 6,302 | 183 | - | (33,774) | - |
| Disposals/write offs | (1,154) | (41,469) | (6,295) | (585) | (2,369) | - | - | (2,473) | (54,345) |
| Effect of movements in exchange rates | (15,225) | (35,698) | (2,056) | (2,067) | (104) | (706) | - | (1,784) | (57,640) |
| Balance at 31 December 2013 | 687,188 | 2,520,886 | 82,328 | 43,794 | 39,878 | 19,958 | 129 | 51,568 | 3,445,729 |
| Balance at 1 January 2014 | 687,188 | 2,520,886 | 82,328 | 43,794 | 39,878 | 19,958 | 129 | 51,568 | 3,445,729 |
| Hyperinflationary effect (refer note 34) | 73,221 | 326,982 | 15,909 | 4,579 | 2,050 | 6,846 | - | 938 | 430,525 |
| Additions | 1,143 | 121,535 | 43,082 | 1,455 | 3,164 | - | - | 111,912 | 282,291 |
| Acquisition through business combination (refer note 5(a)) | 30,763 | 84,744 | 180 | 542 | - | - | - | - | 116,229 |
| Transfer from capital work in progress | 8,620 | 70,795 | (1,171) | 821 | 127 | - | - | (79,192) | - |
| Disposals/write offs | (2,559) | (4,732) | (7,280) | (2,049) | (335) | - | - | (11,670) | (28,625) |
| Reclassification to assets held for sale (refer note 20) | (93,859) | (355,684) | (19,607) | (7,106) | (3,189) | (7,675) | - | - | (487,120) |
| Effect of movements in exchange rates | (12,161) | (39,660) | (570) | (288) | (141) | (345) | - | (288) | (53,453) |
| **Balance at 31 December 2014** | 692,356 | 2,724,866 | 112,871 | 41,748 | 41,554 | 18,784 | 129 | 73,268 | 3,705,576 |

### 12 Property, plant and equipment (continued)

| | Land and buildings AED'000 | Plant and equipment AED'000 | Vehicles AED'000 | Furniture and fixtures AED'000 | Office equipment AED'000 | Road and asphalting AED'000 | Quarry and land development AED'000 | Capital work in progress AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment losses** | | | | | | | | | |
| Balance at 1 January 2013 | 228,993 | 1,658,961 | 61,595 | 22,589 | 27,639 | 13,025 | 129 | - | 2,012,931 |
| Hyperinflationary effect | 24,001 | 98,458 | 3,702 | 58 | 117 | 658 | - | - | 126,994 |
| Charge for the year | 22,827 | 110,543 | 4,295 | 3,743 | 3,651 | 798 | - | - | 145,857 |
| Acquisition through business combination (refer note 5(a)) | 17,556 | 33,436 | 9,324 | 6,060 | 1,624 | - | - | - | 68,000 |
| On disposals/write offs | (1,141) | (39,714) | (5,858) | (551) | (2,157) | - | - | - | (49,421) |
| Effect of movements in exchange rates | (2,609) | (21,231) | (1,662) | (1,570) | (13) | (527) | - | - | (27,612) |
| Balance at 31 December 2013 | 289,627 | 1,840,453 | 71,396 | 30,329 | 30,861 | 13,954 | 129 | - | 2,276,749 |
| Balance at 1 January 2014 | 289,627 | 1,840,453 | 71,396 | 30,329 | 30,861 | 13,954 | 129 | - | 2,276,749 |
| Hyperinflationary effect (refer note 34) | 30,708 | 235,544 | 13,242 | 4,156 | 1,667 | 6,047 | - | - | 291,364 |
| Charge for the year | 28,577 | 146,216 | 9,344 | 3,600 | 5,939 | 1,421 | - | - | 195,097 |
| Acquisition through business combination (refer note 5(a)) | 17,313 | 63,509 | 149 | - | 410 | - | - | - | 81,381 |
| On disposals/write offs | (614) | (13,651) | (5,385) | (2,155) | (285) | - | - | - | (22,090) |
| Reclassification to assets held for sale (refer note 20) | (38,293) | (271,257) | (17,614) | (5,619) | (2,582) | (7,675) | - | - | (343,040) |
| Effect of movements in exchange rates | (4,222) | (22,839) | (407) | (79) | (82) | (129) | - | - | (27,758) |
| **Balance at 31 December 2014** | 323,096 | 1,977,975 | 70,725 | 30,232 | 35,928 | 13,618 | 129 | - | 2,451,703 |
| **Net book value** | | | | | | | | | |
| **At 31 December 2014** | **369,260** | **746,891** | **42,146** | **11,516** | **5,626** | **5,166** | **-** | **73,268** | **1,253,873** |
| At 31 December 2013 | 397,561 | 680,433 | 10,932 | 13,465 | 9,017 | 6,004 | - | 51,568 | 1,168,980 |

## 12 Property, plant and equipment (continued)

The depreciation charge has been allocated as follows:

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Cost of sales (refer note 7) | **150,967** | 114,948 |
| Administrative and general expenses (refer note 8) | **22,926** | 19,841 |
| Selling and distribution expenses (refer note 9) | **928** | 2,449 |
| Reclassified to discontinued operations (refer note 21) | **-** | 8,619 |
| | **174,821** | 145,857 |

### (i) Land and buildings

The Group's certain factory buildings and investment properties are constructed on plots of land measuring 46,634,931 sq.ft. which were received from the Government of Ras Al Khaimah under an Emiri Decree, free of cost as a Government grant. These plots of land are recorded at nominal value. Also refer note 14.

### (ii) Capital work-in-progress

Capital work in progress mainly includes building structure under construction and heavy equipment, machinery and software under installation.

### (iii) Change in estimates

During 2013, management carried out a review of the useful lives of property, plant and equipment and buildings and revised the useful life of plant and equipment from 10 years to 15 years and buildings from 22 years to 30 years of their Group entities, RAK (Gao Yao) Ceramics Co. Limited and RAK Universal Plastics Industries LLC. The revision in estimated useful life is effective from 1 January 2013 and has been treated as a change in accounting estimate in accordance with International Accounting Standard ("IAS") 8, *'Accounting policies, changes in accounting estimates and errors'* and applied prospectively from the effective date.

### (iv) Impairment of property, plant and equipment

Property, plant and equipment includes AED 71.14 million and AED 166.72 million *(2013: AED 93.28 million and AED 188.65 million)* which represents certain manufacturing units of the Group. During the current year, the Group had temporarily suspended its production at these plants. Management has carried out an impairment test for the property, plant and equipment based on the "value in use" calculation and market sale value. Refer note 14(ii) for valuation techniques and significant unobservable inputs. For value in use, the management have used cash flow projections based on estimated operating results of the entities. The key assumptions used to determine the values are as follows:

| | |
|---|---|
| Discount rate | 15% - 20% |
| Years of forecast | 5 years |
| Terminal growth rate | 1.5% – 2.5% |

The estimated recoverable amount (based on value in use) and market sale value of the cash generating units exceeded its carrying amount. The management is confident that the entities will be able to meet its projections and that the assumptions in relation to the impairment test are reasonable. Accordingly, no impairment loss has been recorded against property, plant and equipment in the current and the previous year.

## 13 Intangible assets

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| Balance at 1 January | **20,459** | 7,077 |
| Additions during the year | **6,324** | 15,767 |
| Amortisation during the year | **(2,904)** | (2,558) |
| Reclassification to assets held for sale (refer note 20) | **(4,687)** | - |
| Effect of movements in exchange rates | **199** | 173 |
| Balance at 31 December | **19,391** | 20,459 |

Intangible assets mainly include an ERP software (SAP) which is implemented during the 2013 in the Holding Company. These are amortised over the period for which the software is used and licence is acquired, which is in the range from 5 to15 years. Amortisation for the year has been allocated as follows:

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| Cost of sales (refer note 7) | **-** | 123 |
| Administrative and general expenses (refer note 8) | **2,572** | 2,087 |
| Reclassified to discontinued operations (refer note 21) | **-** | 348 |
| | **2,572** | 2,558 |

## 14 Investment properties

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| **Cost** | | |
| Balance at 1 January | **265,155** | 266,342 |
| Addition during the year (refer note 28(i)) | **899,371** | - |
| Effect of movements in exchange rates | **(378)** | (1,187) |
| Balance at 31 December | **1,164,148** | 265,155 |

***Accumulated depreciation and impairment losses***

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| Balance at 1 January | **42,991** | 35,713 |
| Charge for the year (refer note 8) | **7,278** | 7,278 |
| Balance 31 December | **50,269** | 42,991 |
| **Net book value – at 31 December** | **1,113,879** | 222,164 |
| **Fair value - at 31 December** | **1,288,036** | 398,205 |

## 14 Investment properties (continued)

(i) During the year ended 31 December 2014, the Group has earned rental income amounting to AED 16.29 million *(2013: AED 15.48 million)* from the investment properties (refer note 10).

(ii) The fair value of the Group's investment property at 31 December 2014 has been arrived at on the basis of a valuation carried out on that date by an external, independent property valuer. The valuer has appropriate qualifications and recent experience in the valuation of properties in the location and category of the property being valued. The valuation was performed based on replacement market value. The independent valuation of the fair value of the Group's property is done periodically. The fair value of investment properties as per the report of the independent valuer is AED 1,288 million *(2013: AED 398 million)*. As the fair values of investment properties exceed the carrying value, the Group has not recognised any impairment loss during the current year *(2013: Nil)*. Also refer note 12(i).

**Fair values**

***Valuation techniques and significant unobservable inputs***

The following table show the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

| **Valuation techniques** | **Significant unobservable inputs** | **Inter- relationship between significant and fair value measurement** |
|---|---|---|
| The investment properties were valuated using the market approach, adjusted by the influence of the major driving market factors, like demand, transactions, availability, inflation and purchase power of money. | - Inflation rate : > 4% (at end of December 2014)<br>- Interest rate : E + 1.75%<br>- Cost of capital : E + 6.5%<br>- Statistical average growth rate: 4.6% for nationals and 1.8% for expats<br>- Estimated GDP and FDI published by International Monetary Fund | The estimated fair value would change if the following were changed :<br>- Interest rate<br>- Inflation rate<br>- Targeted profit tendency<br>- Demand improvement |

## 15 Investment in equity accounted investees

Movement in investments in equity accounted investees is set out below:

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| At 1 January | **214,329** | 345,500 |
| Investments made during the year (refer note (i) below) | **12,396** | 14,730 |
| Share in results | **38,008** | 30,619 |
| Disposals (refer note (ii) below) | **(17,098)** | - |
| Adjustment due to controlling interest in a joint venture (refer note 5(a)) | **(62,583)** | (141,876) |
| Dividends received during the year | **(32,179)** | (33,299) |
| Effect of movements in exchange rates | **(1,597)** | (1,345) |
| At 31 December | **151,276** | 214,329 |

(i) During the year, the Group has made further investment in the following entities:

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Restofair RAK LLC (refer note 5(a)) | **9,228** | - |
| Porcelain Europe SA (refer note 5(a)) | **3,168** | - |
| RAK Paints Private Limited | **-** | 1,730 |
| RAK Warehouse Leasing LLC | **-** | 13,000 |
| | **12,396** | 14,730 |

### (ii) Disposal of equity accounted investees in 2014

On 1 October 2014, the Group disposed off its entire 50% and 40% equity interests in jointly controlled entities "RAK Piling Bangladesh Private Limited" and "RAK Ceramics Holding Private Limited" respectively. The Group sold RAK Piling Bangladesh Private Limited and RAK Ceramics Holding Private Bangladesh Private Limited to another shareholder at consideration of AED 3.67 million and AED 6.61 million respectively.

| | RAK Ceramics Holding Private Limited AED'000 | RAK Piling Bangladesh Private Limited AED'000 | Total AED'000 |
|---|---|---|---|
| Net investment | **6,590** | **10,508** | **17,098** |
| Less: sale consideration | **(6,612)** | **(3,674)** | **(10,286)** |
| (Gain) / loss on disposal of investments | **(22)** | **6,834** | **6,812** |

## 15 Investment in equity accounted investees (continued)

(iii) The Group has not recognised losses of RAK Ceramics GMBH amounting to AED 1.56 million *(2013: AED 1.4 million)* over and above the Group's initial investment, since the Group has no obligation in respect of these losses.

(iv) The following summarises the information relating to each of the Group's investment in equity accounted investees.

| | Within UAE | | Equity accounted investees outside UAE | | Total | |
|---|---|---|---|---|---|---|
| **December** | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | AED '000 | | | | | |
| Non-current assets | **149,683** | 210,932 | **61,130** | 74,018 | **210,813** | 284,950 |
| Current assets | **169,099** | 257,257 | **382,336** | 409,799 | **551,435** | 667,056 |
| Non-current liabilities | **26,895** | 67,357 | **24,778** | 27,904 | **51,673** | 95,261 |
| Current liabilities | **80,338** | 101,037 | **334,180** | 347,043 | **414,518** | 448,080 |
| **Net assets** | **211,549** | 299,795 | **84,508** | 108,870 | **296,057** | 408,665 |
| **Group's share of net assets** | **104,167** | 147,565 | **47,737** | 66,920 | **151,904** | 214,485 |
| **Elimination of unrealised profit on downstream sales** | **-** | - | **314** | 156 | **314** | 156 |
| **Carrying amount of interest in equity accounted investees** | **104,167** | 147,565 | **47,423** | 66,764 | **151,590** | 214,329 |
| | ====== | ====== | ====== | ====== | ====== | ====== |
| Revenue | **331,348** | 303,992 | **583,345** | 557,427 | **914,693** | 861,419 |
| Profit and total comprehensive income | **72,425** | 71,638 | **5,918** | 320 | **78,343** | 71,958 |
| Group's share | **35,975** | 33,069 | **2,347** | (2,294) | **38,322** | 30,775 |
| Elimination of unrealised profit on downstream sales | **-** | - | **314** | 156 | **314** | 156 |
| **Group's share of profit** | **35,975** | 33,069 | **2,033** | (2,450) | **38,008** | 30,619 |
| **Dividend received by the Group** | **28,086** | 24,080 | **4,093** | 9,219 | **32,179** | 33,299 |
| | ===== | ===== | ==== | ==== | ===== | ===== |

### 16 Inventories

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| Finished goods | **667,988** | 603,885 |
| Less: provision for slow moving and obsolete inventories | **(42,535)** | (27,114) |
| | ---------- | ---------- |
| | **625,453** | 576,771 |
| Raw materials | **313,128** | 306,042 |
| Goods-in-transit | **31,341** | 39,499 |
| Work-in-progress | **19,330** | 22,239 |
| Stores and spares | **199,707** | 208,655 |
| | ----------- | ----------- |
| | **1,188,959** | 1,153,206 |
| Less: provision for slow moving raw materials and stores and spares * | **(49,568)** | (37,513) |
| | ------------ | ------------ |
| | **1,139,391** | 1,115,693 |
| | ======= | ======= |

* Stores and spares are depreciated based on the useful life of the plant until they are issued to the factory for capitalisation. The depreciation charge is recognised in these consolidated financial statements under provision for inventories.

At 31 December 2014, the Group has recognised a cumulative loss due to write-down of finished goods inventories of AED 33 million against the cost of AED 316.50 million *(2013: AED 32.5 million against the cost of AED 210.3 million)* to bring them to their net realisable value which were lower than their costs. The difference in write down is included in cost of sales in the condensed consolidated income statement (refer note 7).

Inventories amounting to AED 201.88 million *(2013: AED 190.37 million)* are subject to a charge in favour of banks against facilities obtained by the Group (refer note 24(vii)).

The movement in provision for slow moving inventories is as follows:

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| As at 1 January | **64,627** | 56,253 |
| Charge for the year (refer note 7) | **27,476** | 8,374 |
| | --------- | --------- |
| At 31 December | **92,103** | 64,627 |
| | ===== | ===== |

### 17 Trade and other receivables

| | **2014** **AED'000** | 2013 AED'000 |
|---|---|---|
| Trade receivables | **1,082,919** | 1,073,704 |
| Less: allowance for impairment losses | **(145,543)** | (181,855) |
| | ---------- | ---------- |
| | **937,376** | 891,849 |
| Advances | **118,357** | 95,951 |
| Deposits | **10,502** | 13,097 |
| Other receivables | **103,820** | 109,759 |
| | ------------ | ------------ |
| | **1,170,055** | 1,110,656 |
| | ======= | ======= |

Trade receivables amounting to AED 29.85 million *(2013: AED 186.18 million)* are subject to a charge in favour of banks against facilities obtained by the Group (refer note 24(vii)).

## 18 Contract work-in-progress / billings in excess of valuation

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Costs incurred to date | **588,824** | 628,017 |
| Add: estimated attributable profits less expected losses | **8,425** | 47,975 |
| | **597,249** | 675,992 |
| Less: progress billings | **(571,967)** | (596,018) |
| Contract work-in-progress | **25,282** | 79,974 |

Disclosed in the statement of financial position as below:

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Contract work in progress | **28,598** | 82,304 |
| Billing in excess of valuations | **(3,316)** | (2,330) |
| | **25,282** | 79,974 |

## 19 Cash in hand and at bank

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Cash in hand | **1,628** | 1,785 |
| Cash at bank | | |
| - in fixed deposits | **114,365** | 104,553 |
| - in current accounts | **314,643** | 325,327 |
| - in margin deposits | **2,540** | 24,484 |
| - in call accounts | **15,170** | 43,369 |
| | **448,346** | 499,518 |

Cash in hand and cash at bank includes AED 0.21 million *(2013: AED 0.42 million)* and AED 83.99 million *(2013: AED 110.10 million)* respectively, held outside UAE.

Fixed deposits carry interest at normal commercial rates. Fixed deposits include AED 4.69 million *(2013: AED 36.52 million)* which are held by bank under lien against bank facilities availed by the Group (refer note 24(viii)).

## 20 Assets and liabilities of disposal group held for sale

In December 2014, management entered into a non-binding agreement to sell Ceramics Ras Al Khaima Sudanese Investment Company Limited. Further, the Group also committed to a plan to sell one of its subsidiaries in Bangladesh namely RAK Pharmaceuticals Private Limited. Accordingly, these entities are presented as disposal group held for sale. Efforts to sell the shares have commenced, and the sales are likely to be formalised in 2015.

As at 31 December 2014, the Group has not recognised any impairment loss on the remeasurement of disposal group held for sale as their carrying values were lower than fair value less cost to sell. Accordingly, the disposal group is stated at carrying value and comprises the following assets and liabilities.

| | Ceramics Ras Al Khaima Sudanese Investment Co. Ltd. AED'000 | RAK Pharmaceuticals Private Limited AED'000 | Others AED'000 | Total AED'000 |
|---|---|---|---|---|
| Property, plant and equipment | **117,579** | **26,501** | **-** | **144,080** |
| Intangibles | **-** | **4,687** | **-** | **4,687** |
| Inventories | **69,883** | **3,411** | **-** | **73,294** |
| Trade and other receivables | **75,570** | **3,592** | **20,311** | **99,473** |
| Cash in hand and at banks | **10,007** | **75** | **-** | **10,082** |
| **Assets held for sale** | **273,039** | **38,266** | **20,311** | **331,616** |
| Short term loans | **-** | **13,680** | **-** | **13,680** |
| Trade and other payables | **9,735** | **5,895** | **1,500** | **17,130** |
| **Liabilities held for sale** | **9,735** | **19,575** | **1,500** | **30,810** |

***Cumulative income or expenses included in other comprehensive income***

Following are the items included in other comprehensive income relating to the disposal group.

| | Ceramics Ras Al Khaima Sudanese Investment Co. Ltd. AED'000 | RAK Pharmaceuticals Private Limited AED'000 | Total AED'000 |
|---|---|---|---|
| Foreign currency translation reserve (debit) | **(152,751)** | **(936)** | **(153,687)** |
| Hyperinflation effect (credit) | **168,535** | **-** | **168,535** |
| Net amount in OCI which may be subsequently reclassified to profit or loss | **15,784** | **(936)** | **14,848** |

## 20 Assets and liabilities of disposal group held for sale (continued)

***Measurement of fair values***

*Fair value hierarchy*

The non-recurring fair value measurement for the disposal group as determined by management has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

*Valuation technique*

During the year, the Group has remeasured the assets and liabilities of RAK Sudan and RAK Pharmaceuticals Private Limited to compare the carrying amount with fair value less cost to sell. The values considered for purpose of comparison were based on the quotations received from prospective buyers.

## 21 Discontinued operations

During the year, the Group classified its subsidiaries in Sudan and Bangladesh as held for sale and accordingly the results from these operations are presented as discontinued operations.

These subsidiaries were not previously classified as held-for-sale or as discontinued operations. The comparative consolidated statement of profit or loss and other comprehensive income has been restated to show the discontinued operations separately from continuing operations.

| | Ceramics Ras Al Khaima Sudanese Investment Co. Ltd. AED'000 | RAK Pharmaceuticals Private Limited AED'000 | Total AED '000 |
|---|---|---|---|
| | | 2014 | |
| Revenue | **143,277** | **21,842** | **165,119** |
| Expense | **(152,099)** | **(29,431)** | **(181,530)** |
| Hyperinflationary effect | **(29,348)** | **-** | **(29,348)** |
| **Results from operating activities** | **(38,170)** | **(7,589)** | **(45,759)** |
| Income tax | **-** | **(67)** | **(67)** |
| **Loss for the year** | **(38,170)** | **(7,656)** | **(45,826)** |

## 21 Discontinued operations (continued)

| | Ceramics Ras Al Khaima Sudanese Investment Co. Ltd. AED'000 | RAK Pharmaceuticals Private Limited AED'000 | Total AED'000 |
|---|---|---|---|
| | -----------------------------2013 | ----------------------------- | |
| Revenue | 145,045 | 20,921 | 165,966 |
| Expense | (144,459) | (30,011) | (174,470) |
| | -------- | -------- | ------- |
| Profit/(loss) for the year | 586 | (9,090) | (8,504) |
| | === | ==== | ===== |

Also refer note 23.

The loss from the discontinued operations to the extent of AED 41.22 million *(2013: loss of AED 3.03 million)* is attributable to the owners of the Company. Of the profit from continuing operations of AED 327.53 million *(2013: AED 280.79 million)*, an amount of AED 320.14 million is attributable to the owners of the Company *(2013:AED 285.43 million)*.

***Cash flows from discontinued operations***

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Net cash (used in)/generated operating activities | **(11,353)** | 14,505 |
| | ==== | ==== |
| Net cash used in investing activities | **(3,842)** | (4,168) |
| | ==== | ==== |
| Net cash generated from financing activities | **8,959** | 1,627 |
| | ==== | ==== |
| Net cash flow | **(6,236)** | 11,964 |
| | ==== | ==== |

## 22 Capital and reserves

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **(i) Share capital** | | |
| ***Authorised and issued*** | | |
| 170,000,000 shares of AED 1 each paid up in cash | **170,000** | 170,000 |
| 647,522,200 shares of AED 1 each issued as bonus shares *(31 December 2013: 573,202,000 shares of AED 1 each)* | **647,523** | 573,202 |
| | ---------- | ---------- |
| 817,522,200 *(2013: 743,202,460)* shares of AED 1 each | **817,523** | 743,202 |
| | ===== | ===== |

### 22 Capital and reserves (continued)

### (i) Share capital (continued)

The holders of ordinary shares are entitled to receive dividends declared and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

On 17 April 2014, the shareholders of the Company in their Annual General Meeting approved the issue of bonus shares to the extent of 10% of the share capital of the Company (refer below note viii).

### (ii) Share premium reserve

| | **AED'000** |
|---|---|
| On the issue of shares of: | |
| - Ras Al Khaimah Ceramics PSC (refer note (a) below) | **165,000** |
| - RAK Ceramics (Bangladesh) Limited, Bangladesh (refer note (b) below) | **60,391** |
| Less: Share issue expenses | **(3,583)** |
| | ---------- |
| **Total** | **221,808** |
| | ====== |

(a) In October 1998, the shareholders of the Company resolved to issue 15 million ordinary shares at an exercise price of AED 12 per share resulting in share premium of AED 165 million.

(b) In February 2010, the shareholders of RAK Ceramics (Bangladesh) Limited resolved to issue 44.51 million ordinary shares at an exercise price of AED 1.36 per share resulting in share premium of AED 60.39 million. The share issue costs resulting from the increase in share capital of RAK Ceramics (Bangladesh) Limited of AED 3.58 million was recognised as a reduction in equity.

### (iii) Translation reserve

The translation reserve comprises of all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of monetary items that form part of Group's net investment in foreign operations.

## 22 Capital and reserves (continued)

### (iv) Hyperinflation reserve (restated)

The hyperinflation reserve comprises of all foreign currency differences arising from the translation of the financial statements entities operating in a hyperinflationary economy (Sudan and Iran) and the effect of translating their financial statements at current index due to the application of IAS 29: *Financial Reporting in Hyperinflation Economies*.

| | RAK Iran AED'000 | RAK Sudan AED'000 | Total AED'000 |
|---|---|---|---|
| **As at 1 January 2013 (refer note (a) below)** | | | |
| Foreign currency translation reserve | (238,891) | (126,334) | (365,225) |
| ***For the year 2013*** | | | |
| Foreign currency translation reserve | (1,784) | (28,938) | (30,722) |
| Hyperinflation effect relating to the owners of the Company | 135,766 | - | 135,766 |
| As at 31 December 2013 | (104,909) | (155,272) | (260,181) |
| ***For the year 2014*** | | | |
| Foreign currency translation | **(19,396)** | **2,521** | **(16,875)** |
| Hyperinflation effect relating to the owners of the Company | **28,840** | **168,535** | **197,375** |
| **As at 31 December 2014** | **(95,465)** | **15,784** | **(79,681)** |

Also refer note 37.

(a) Until the previous year, these balances were included in translation reserve and have been reclassified retrospectively from foreign currency translation reserve to hyperinflation reserve. Also the movement in this reserve have been restated from equity to other comprehensive income (refer note 37) and movements pertaining to foreign currency translation have reclassified from translation reserve to hyperinflation reserve.

### (v) Legal reserve

In accordance with the Articles of Association of entities in the Group and Article 255 of UAE Federal Law No. 8 of 1984 (as amended), 10% of the net profit for the year of the individual entities to which the law is applicable, has been transferred to a statutory reserve. Such transfers may be discontinued when the reserve equals 50% of the paid up share capital of these entities. This reserve is non-distributable except in certain circumstances as mentioned in the abovementioned Law. The consolidated statutory reserve reflects transfers made post acquisition for these subsidiary companies.

### (vi) General reserve

General reserve of AED 82.8 million *(2013: AED 82.8 million)* represents net profit of prior years retained in reserve. This reserve is distributable.

### (vii) Capital reserve

Capital reserve of AED 55.04 million *(2013: AED 55.04 million)* represents the Group's share of retained earnings capitalised by various subsidiaries. The capital reserve is non-distributable.

### 22 Capital and reserves (continued)

### (viii) Dividend

For 2014, the Directors have proposed a cash dividend of 35% (AED 0.35 per share, comprising of AED 0.25 ordinary and AED 0.10 extra-ordinary) which will be submitted for approval of the shareholders at the Annual General Meeting in April 2015. On 17 April 2014, the shareholders of the Company in their Annual General Meeting approved 15% cash dividend (AED 0.15 per share) and 10% stock dividend for the year 2013 which was proposed by the Board of Directors.

### (ix) Director's fee

At the Annual General Meeting (AGM) held on 17 April 2013, the shareholders approved the proposed Directors' fees amounting to AED 2.4 million for the year ended 31 December 2013 which has been paid during the year.

### 23 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners shareholders of the Company and the weighted average number of ordinary shares outstanding as at 31 December 2014, calculated as follows:

| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
|---|---|---|---|---|---|---|
| | **Continuing operations** | | **Discontinued operations** | | **Total** | |
| **Earnings per share** | | | | | | |
| Net profit attributable to owners of the Company (AED'000) | **320,140** | 285,429 | **(41,219)** | (3,033) | **278,921** | 282,396 |
| Weighted average number of shares outstanding ('000s) | **817,523** | 817,523 | **817,523** | 817,523 | **817,523** | 817,523 |
| Earnings / (loss) per share (AED) | **0.39** | 0.35 | **(0.05)** | (0.00) | **0.34** | 0.34 |

There was no dilution effect on the basic earnings per share as the Company does not have any such outstanding commitment as at the reporting date.

During the current year, the number of authorised and issued share capital increased due to the capitalisation of shares i.e issue of bonus shares. As a result of issue, the calculation of basic and diluted earnings per share for the comparative period shall be adjusted accordingly and the earnings/loss per share is calculated using the revised number of shares.

## 24 Bank borrowings

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| **Short-term** | | |
| Bank overdrafts | **122,286** | 26,997 |
| Short-term loans | **499,041** | 501,215 |
| Trust receipts | **131,733** | 48,861 |
| Current portion of long-term loans | **346,122** | 332,269 |
| | ---------- | --------- |
| | **1,099,182** | 909,342 |
| | ======= | ===== |
| **Long-term** | | |
| Bank loans | **1,116,510** | 1,247,060 |
| Less: current portion of long-term loans | **(346,122)** | (332,269) |
| | ---------- | ----------- |
| | **770,388** | 914,791 |
| | ====== | ====== |

The terms and conditions of outstanding long-term loans were as follows:

| **Currency** | **Interest range** | **2014 AED'000** | 2013 AED'000 |
|---|---|---|---|
| AUD | 6.6% - 8.2% | **15,465** | 19,898 |
| BDT | 14% - 17% | **-** | 1,475 |
| AED | 4% - 8% | **347** | 679 |
| EUR | 0.9% - 5.55% | **5,957** | 38,766 |
| INR | 9.7%-10.3% | **17,770** | 10,167 |
| USD | 2.25% - 3.25% | **1,076,971** | 1,176,075 |
| | | ----------- | ----------- |
| Total | | **1,116,510** | 1,247,060 |
| | | ======= | ======= |

The Group has obtained long term and short term facilities from various banks for financing acquisition of assets, project financing or to meet its working capital requirements. Majority of these bank borrowings are denominated either in the functional currencies of the respective borrowing entities or in USD, a currency against which the functional currency of the Company is currently pegged. Rate of interest on the above bank loans are based on normal commercial rates. The Group has taken currency swaps to hedge a portion of its currency risk (refer note 27). The maturity profile of term loans range from 2015 to 2019.

These bank borrowings are secured by:

(i) Negative pledge over certain assets of the Group;
(ii) Pari-passu rights with other unsecured and unsubordinated creditors;
(iii) Mortgage / hypothecation of relevant motor vehicles in favour of the bank (refer note 12);
(iv) Promissory note for AED 514 million;
(v) Assignment of insurance over furniture, fixtures and equipments of certain Group entities in favour of the bank;
(vi) Corporate guarantee given by the Company;
(vii) Hypothecation of inventories and receivables of certain Group entities (refer notes 16 and 17); and
(viii) Fixed deposits held under lien (refer note 19).

## 25 Trade and other payables

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Trade payables | **439,577** | 656,732 |
| Accrued and other expenses | **221,908** | 225,455 |
| Advances from customers | **71,837** | 38,043 |
| Commissions and rebates payables | **44,750** | 30,195 |
| Other payables | **28,843** | 29,725 |
| | **806,915** | 980,150 |

## 26 Staff terminal benefits

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| At 1 January | **77,939** | 66,093 |
| On acquisition of a subsidiary (refer note 5(a)) | **3,454** | 9,134 |
| Charge for the year | **24,949** | 21,479 |
| Payments made during the year | **(28,226)** | (17,269) |
| Effect of movements in exchange rate | **748** | (1,498) |
| At 31 December | **78,864** | 77,939 |

## 27 Derivative financial instruments

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analyzed by term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

| | **Positive fair value AED'000** | **Negative fair value AED'000** | **Notional amount AED'000** | **Within 1 year AED'000** |
|---|---|---|---|---|
| **31 December 2014** | | | | |
| Currency swaps | **29** | **-** | **3,835** | **3,835** |
| | **29** | **-** | **3,835** | **3,835** |
| 31 December 2013 | | | | |
| Interest rate swaps | - | 471 | 251,635 | 251,635 |
| Currency swaps | 1,736 | - | 7,322 | 7,322 |
| | 1,736 | 471 | 258,957 | 258,957 |

## 27 Derivative financial instruments (continued)

(i) The Group has entered into cross currency swaps with commercial banks whereby its foreign currency obligations upto USD 1.04 million have been converted into the hedged Indian Rupees (INR) amount.

(ii) The difference between net mark-to-market value of the derivative financial instruments as at 31 December 2014 amounting to AED 0.03 million as compared to the value of AED 1.27 million on 31 December 2013 has resulted in a loss of AED 1.24 million *(2013: gain of AED 5.22 million)* which has been recognised as finance expense *(2013: finance income)* (refer note 11).

Information about the Group's exposure to credit and market risks, and the fair value measurement is included in note 33.

## 28 Related parties

The Group, in the ordinary course of business, enters into transactions with other business enterprises that fall within the definition of related parties as contained in International Accounting Standard 24 *"Related Party Disclosures"*. The management approves prices and terms of payment for these transactions and these are carried out at mutually agreed rates. The significant transactions entered into by the Group with related parties during the year, other than those disclosed elsewhere in these consolidated financial statements (in particular note 5 and 15), are as follows:

**Transactions with related parties**

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| **A) Equity accounted investees** | | |
| Sale of goods and services and construction contracts | **290,809** | 413,804 |
| Purchase of goods and services | **4,797** | 9,177 |
| Interest expense (refer note 11) | **37** | 1,648 |
| Interest income (refer note 11) | **1,499** | 1,984 |
| Rental income | **4,939** | 5,733 |
| | **====** | ==== |
| **B) Other related parties** | | |
| Sales of goods and services and construction contracts | **5,375** | 181,437 |
| Purchase of goods and services | **162,115** | 140,478 |
| Interest income (refer note 11) | **3,703** | 12,380 |
| Rental income | **7,433** | 4,838 |
| | **====** | ==== |

Also refer notes 5 and 15.

## 28 Related parties (continued)

**Key management personnel compensation**

The remuneration of Directors and other members of key management of the Company during the year were as follows:

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Short-term benefits | **15,505** | 15,890 |
| Staff terminal benefits | **782** | 407 |
| | **===** | === |

**Due from related parties**

Due from related parties includes receivable from certain entities which are related parties of the Group by virtue of common ultimate ownership and directorship of certain individuals in the Company and these entities. The Board of Directors of the Company, based on their review of these outstanding balances, are of the view that the existing provision is sufficient to cover any expected impairment losses there against. During the current and previous year, the Group has recognised impairment loss on amounts due from related parties primarily domiciled in the UAE and Europe. Certain related party balances carry interest at mutually agreed rates.

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Equity accounted investees | **408,454** | 514,860 |
| Other related parties | **22,573** | 523,525 |
| Less: allowance for impairment losses (refer note 33) | **(138,230)** | (72,965) |
| | **----------** | ---------- |
| | **292,797** | 965,420 |
| | **======** | ====== |

**Due to related parties**

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Equity accounted investees | **8,104** | 45,475 |
| Others related parties | **55,593** | 13,634 |
| | **---------** | --------- |
| | **63,697** | 59,109 |
| | **=====** | ===== |

**Long term receivables from related parties**

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Long term amount receivable from related parties | **-** | 303,400 |
| Less: discounting of long term receivables | **-** | (46,093) |
| | **---** | --------- |
| | **-** | 257,307 |
| Less: current portion | **-** | (52,145) |
| | **---** | --------- |
| Long term portion | **-** | 205,162 |
| | **==** | ===== |

### 28 Related parties (continued)

**(i) Settlement of certain related party receivable balances**

During the current year, the ultimate beneficial owner of certain related parties has settled balances payable by these related parties to the Group having a carrying value of AED 839.3 million (net) in the form of a plot of land on behalf of these related parties. Accordingly, the Group has received a plot of land in consideration of the settlement of these related party balances.

When received, the land was fair valued by an independent valuer, in accordance with the requirements of *IFRS 13*: Fair value measurement, at AED 899.3 million which has been recognised as an investment property and a resultant gain of AED 59.1 million (net of transaction costs) is recognised on the settlement of the above mentioned related party balances. The cost of investment property acquired in exchange for the related party receivables (monetary assets) has been determined at the fair value of the investment property received. The gain on this transaction has been recognised as explained below.

| | **2014 AED'000** |
|---|---|
| Fair value of investment property | **899,319** |
| Less: due from related parties derecognised (net) | **(839,268)** |
| | ----------- |
| | **60,051** |
| Less: cost incurred on transaction | **(969)** |
| | --------- |
| **Gain recognised in consolidated income statement** | **59,082** |
| | ===== |

### 29 Income tax

Tax expense relates to corporation tax payable on the profits earned by certain Group entities which operates in taxable jurisdictions, as follows:

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| **Current tax** | | |
| Current year | **19,841** | 22,169 |
| **Deferred tax** | | |
| Originating and reversal of temporary tax differences | **191** | 2,988 |
| Adjustment for prior years | **3,349** | (5,821) |
| | ------- | ------- |
| Total deferred tax | **3,540** | (2,833) |
| | ------- | -------- |
| Tax expense for the year | **23,381** | 19,336 |
| | ===== | ===== |
| Provision for tax | **103,135** | 87,260 |
| | ===== | ===== |
| Deferred tax liability | **8,755** | 7,440 |
| | ==== | ==== |
| Deferred tax asset | **268** | 2,678 |
| | == | ==== |

The Company operates in a tax free jurisdiction. The Group's consolidated effective tax rate is 6.6% for 2014 *(2013: 6.63%)* which is primarily due to the effect of tax rates in foreign jurisdictions.

## 30 Contingent liabilities and commitments

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Letters of guarantee | **91,230** | 190,417 |
| Letters of credit | **227,207** | 67,823 |
| Capital commitments | **6,189** | 555 |
| VAT and other tax contingencies | **48,890** | 58,321 |
| | ===== | ===== |

In some jurisdictions, the tax returns for certain years have not been reviewed by the tax authorities and there are unresolved disputed corporate tax assessments and VAT claims by the authorities. However, the Group's management is satisfied that adequate provisions have been made for potential tax contingencies.

Certain other contingent liabilities may arise during normal course of the Group's contracting business, which based on the information presently available, cannot be quantified at this stage. However, in the opinion of the management these contingent liabilities are not likely to be material.

The Company has issued corporate guarantees for advances obtained by related parties from commercial banks. Guarantees outstanding as at 31 December 2014 amounts to AED 364 million *(31 December 2013: AED 346 million)*.

### 31 Non-controlling interests

The following summarises the information relating to each of the Group's subsidiaries that has material NCI.

| | Subsidiaries within UAE | | Subsidiaries outside UAE | | Intra group eliminations | | Total | |
|---|---|---|---|---|---|---|---|---|
| **December** | **2014** | 2013 | **2014** | Restated 2013 | **2014** | 2013 | **2014** | Restated 2013 |
| | AED'000 | | | | | | | |
| Non-current assets | **70,316** | 30,075 | **479,954** | 536,666 | **(28,850)** | (20,620) | **521,420** | 546,121 |
| Current assets | **422,729** | 363,725 | **692,162** | 610,061 | **-** | - | **1,114,891** | 973,786 |
| Non-current liabilities | **8,339** | 5,118 | **74,746** | 66,940 | **-** | - | **83,085** | 72,058 |
| Current liabilities | **208,186** | 234,755 | **434,269** | 407,930 | **-** | - | **642,455** | 642,685 |
| **Net assets** | **276,520** | 153,927 | **663,101** | 671,857 | **(28,850)** | (20,620) | **910,771** | 805,164 |
| **Carrying amount of NCI** | **131,995** | 68,526 | **123,360** | 118,067 | **(28,850)** | (20,620) | **226,505** | 165,973 |
| Revenue | **314,331** | 390,443 | **785,490** | 808,223 | **-** | - | **1,099,821** | 1,198,666 |
| Profit / (loss) | **2,955** | (19,843) | **9,343** | (10,449) | **-** | - | **12,298** | (30,292) |
| Other comprehensive income | **65** | (242) | **24,991** | 58,121 | **-** | - | **25,056** | 57,879 |
| **Total comprehensive income** | **3,020** | (20,085) | **34,334** | 47,672 | **-** | - | **37,354** | 27,587 |
| Profit / (loss) allocated to NCI | **847** | (7,512) | **376** | (3,433) | **1,555** | 833 | **2,778** | (10,112) |
| Total comprehensive income allocated to NCI | **38** | (110) | **4,406** | 33,225 | **-** | - | **4,444** | 23,003 |

## 32 Operating leases

*As lessor*

Certain Group entities lease out their investment properties under operating leases. The leases typically run for a period of more than five years, with an option to renew the lease after that date. Lease rentals are usually reviewed periodically to reflect market rentals.

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Less than one year | **21,916** | 21,753 |
| Between two and five years | **65,370** | 58,160 |
| More than five years | **134,411** | 163,649 |
| | ---------- | ---------- |
| | **221,697** | 243,562 |
| | ====== | ====== |

## 33 Financial instruments

**Risk management framework**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Group's senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities. The Group's current financial risk management framework is a combination of formally documented risk management policies in certain areas and informal risk management practices in others.

The Group's risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by the internal audit department. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

## 33 Financial instruments (continued)

**Risk management framework (continued)**

As part of the application of the risk management policies, senior management is also responsible for development and implementation of controls to address operational risks arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors arising from legal and regulatory requirements, political and economic stability in the jurisdictions that the Group operates and generally accepted standards of corporate behavior.

At 31 December 2014, the Group has a subsidiary in Iran, RAK Ceramics PJSC Limited ("RAK Iran") which is engaged in the manufacturing and sale of ceramic tiles and has net assets amounting to AED 207.64 million *(2013: AED 215.57 million)* (hyperinflated values) as at that date.

Due to the political situation in Iran and the imposition of stricter financial and trade sanctions and oil embargo, the movement of funds through banking channels from Iran has become exceedingly difficult. The currency has relatively stabilised in 2013 and 2014. However, the Iranian currency has de-valued by 10% against the US Dollar in 2014. Further in 2013 and 2014, discussion on relation to easing of sanctions raises hope for the economy and imposition of stricter financial and trade sanctions will be released.

The Company's management has reviewed the Group's exposure in Iran at the reporting date in view of the current global and political conditions including on-going discussion on easing of sanctions on Iran and the factors outlined above. Based on its review, management is of the view that the Group will be able to recover its investment in Iran and accordingly are of the view that no allowance for impairment is required to be recognised in these consolidated financial statements as at reporting date.

The Group's non-derivative financial liabilities comprise bank borrowings, trade and other payables and balances due to related parties. The Group has various financial assets such as trade and other receivables, cash and cash equivalents and due from related parties.

The Group also holds currency swap derivative instruments. The purpose is to manage the currency risk arising from the Group's operations and its sources of finance. As the part of Group's strategy, no trading in derivatives is undertaken.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables, due from related parties and balances with bank.

## 33 Financial instruments (continued)

**Credit risk (continued)**

***Exposure to credit risk***

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | **2014** | 2013 |
|---|---:|---:|
| | **AED'000** | AED'000 |
| Long term receivables from related parties | **-** | 205,162 |
| Trade and other receivable | **1,051,698** | 1,014,705 |
| Cash at bank | **448,346** | 497,733 |
| Due from related parties | **292,797** | 965,420 |
| | **1,792,841** | 2,683,020 |

*Trade and other receivables and amount due from related parties*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which the customers operate, as these factors may have an influence on credit risk. The Group's ten largest customers account for 32.98% *(2013: 21.27%)* of the outstanding trade receivables as at 31 December 2014. Geographically the credit risk is significantly concentrated in the Middle East and Europe region.

The management has established a credit policy under which each new customer is analysed individually for credit worthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the senior Group management; these limits are reviewed periodically.

In monitoring credit risk, customers and related parties are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables, related parties receivables and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The maximum exposure to credit risk and trade, related parties and other receivable at the reporting date by geographic region and operating segments was as follows.

## 33 Financial instruments (continued)

**Credit risk (continued)**

***Exposure to credit risk (continued)***

*Trade and other receivables and amount due from related parties (continued)*

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| Middle East (ME) | **806,908** | 1,341,062 |
| Euro-zone countries | **213,222** | 480,403 |
| Asian countries (Other than ME) | **189,332** | 166,796 |
| Other regions | **135,033** | 197,026 |
| | **1,344,495** | 2,185,287 |
| Trading and manufacturing | **1,103,885** | 1,595,318 |
| Contracting | **118,759** | 479,317 |
| Other industrial | **47,535** | 13,460 |
| Others | **74,316** | 97,192 |
| | **1,344,495** | 2,185,287 |

***Impairment losses***

At 31 December 2014, trade receivables with a nominal value of AED 145.54 million *(2013: AED 181.85 million)* were impaired. Movement in the allowance for impairment loss of trade receivables were as follows:

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| At 1 January | **181,855** | 150,723 |
| Charge for the year (refer note 8) | **-** | 63,997 |
| Amounts reversed/written off | **(36,312)** | (32,865) |
| At 31 December | **145,543** | 181,855 |

Movement in the allowances for impairment loss on amount due from related parties is as follows:

| | 2014 AED'000 | 2013 AED'000 |
|---|---|---|
| At 1 January | **72,965** | 60,090 |
| Charge for the year (refer note 8) | **65,265** | 12,875 |
| At 31 December | **138,230** | 72,965 |

## 33 Financial instruments (continued)

**Credit risk (continued)**

***Impairment losses (continued)***

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

| | Total AED'000 | Neither past due nor impaired AED'000 | Past due but not impaired <180 days AED'000 | Past due but not impaired 180-360 days AED'000 | Past due but not impaired >360 days AED'000 |
|---|---|---|---|---|---|
| **2014** | **937,376** | **475,676** | **287,620** | **71,377** | **102,703** |
| 2013 | 891,849 | 310,984 | 321,610 | 127,338 | 131,917 |

Unimpaired receivables are expected, on the basis of past experience, segment behaviour and extensive analysis of customer credit risk to be fully recoverable. It is not the practice of the Group to obtain collateral securities over receivables and the vast majorities are therefore, unsecured.

***Balances with banks***

The Group limits its exposure to credit risk by placing balances with international and local banks. Given the profile of its bankers, management does not expect any counter party to fail to meet its obligations. The bank balances are held with the banks and financial institutions of repute.

***Derivative***

The derivatives are entered into with the banks and financial institutions counterparties of repute.

## 33 Financial instruments (continued)

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and equity price will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

***Currency risk***

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities. The entities within the Group which have AED as their functional currency are not exposed to currency risk on transactions denominated in USD as AED is currently pegged to USD at a fixed rate. However, USD denominated transactions carried out by Group entities has been partially hedged using the currency swaps contract. The currencies giving rise to this risk are primarily USD, EURO and GBP.

The Group enters into forward exchange contracts to hedge its currency risk, generally with a maturity of less than one year from the reporting date. The Group also has currency swap arrangements with a maturity of more than 1 year. However, the Group does not hold any forward exchange contracts at reporting date to hedge its currency risk.

Interest on borrowings is denominated in the currency of respective borrowing, generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

***Exposure to currency risk***

The Group’s exposure to foreign currency risk is as follows:

| | GBP | USD | EURO |
|---|---|---|---|
| **31 December 2014** | | ‘000 | |
| Trade and other receivable (including due from related parties) | **8,457** | **95,247** | **51,842** |
| Cash and bank balances | **3,475** | **14,338** | **2,330** |
| Trade and other payables | **(3,381)** | **(46,145)** | **(34,998)** |
| Bank loans | **(278)** | **(406,304)** | **(7,059)** |
| Net statement of financial position exposure | **8,273** | **(342,864)** | **12,115** |

## 33 Financial instruments (continued)

**Market risk (continued)**

***Exposure to currency risk (continued)***

| 31 December 2013 | GBP | USD | EURO |
|---|---|---|---|
| | \|-------------------‘000-------------------\| | | |
| Trade and other receivable (including due from related parties) | 109 | 137,511 | 38,678 |
| Cash and bank balances | 6,438 | 28,046 | 6,408 |
| Trade and other payables | (615) | (31,728) | (17,713) |
| Bank loans | - | (397,474) | (5,337) |
| Net statement of financial position exposure | 5,932 | (263,645) | 22,036 |
| Forward exchange transaction | - | 1,993 | - |
| Net exposure | 5,932 | (261,652) | 22,036 |

The following are exchange rates applied during the year:

| | Reporting date Spot rate | | Average rate | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| Great Britain Pound (GBP) | **5.702** | 6.055 | **6.050** | 5.741 |
| United States Dollar (USD) | **3.674** | 3.674 | **3.674** | 3.674 |
| Euro (EUR) | **4.471** | 5.049 | **4.878** | 4.876 |

**Sensitivity analysis**

A strengthening (weakening) of the AED, as indicated below, against the USD, EUR and GBP by 5% at 31 December would have increased (decreased) profit or loss by the amounts shown below. The analysis is based on foreign currency exchange variances that the Group considers to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignore any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2013.

| | **Strengthening** | | **Weakening** | |
|---|---|---|---|---|
| | **Profit or loss** | **Equity** | **Profit or loss** | **Equity** |
| | ---------------------------**AED’000** | | ------------------------- | |
| **31 December 2014** | | | | |
| GBP | **2,359** | - | **(2,359)** | - |
| USD | **(62,975)** | - | **62,975** | - |
| EURO | **2,709** | - | **(2,709)** | - |
| 31 December 2013 | | | | |
| GBP | 1,796 | - | (1,796) | - |
| USD | (48,059) | - | 48,059 | - |
| EURO | 5,563 | - | (5,563) | - |

## 33 Financial instruments (continued)

***Interest rate risk***

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, whereby the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2014, 6% *(2013: 18%*) of the Group's term loans are at a fixed rate of interest.

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| **Fixed rate instruments** | | |
| ***Financial assets*** | | |
| Fixed deposits | **114,365** | 104,553 |
| Margin deposits | **2,540** | 24,484 |
| Long term receivables from related parties | **-** | 205,162 |
| | **==** | ====== |
| ***Financial liabilities*** | | |
| Bank borrowings | **110,830** | 332,551 |
| | **=====** | ===== |
| **Variable rate instruments** | | |
| ***Financial assets*** | | |
| Due from related parties | **2,756** | 37,122 |
| | **====** | ===== |
| ***Financial liabilities*** | | |
| Due to related parties | **7,444** | 42,617 |
| Bank borrowings | **1,758,749** | 1,491,582 |
| | **=======** | ======= |

*Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

*Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2013.

## 33 Financial instruments (continued)

**Market risk (continued)**

***Interest rate risk (continued)***

*Cash flow sensitivity analysis for variable rate instruments (continued)*

| | Profit or loss | |
|---|---|---|
| | **100bp increase AED'000** | **100 bp decrease AED'000** |
| **31 December 2014** | | |
| *Financial liabilities* | | |
| Variable instruments | **554** | **(554)** |
| | == | == |
| 31 December 2013 | | |
| *Financial assets* | | |
| Variable instruments | **371** | (371) |
| | === | === |
| *Financial liabilities* | | |
| Variable instruments | **25,880** | (25,880) |
| Interest rate swaps | **(6,263)** | 6,263 |
| | ==== | ==== |

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group limits its liquidity risk by ensuring bank facilities are available. The Group's credit terms require the amounts to be received within 120-270 days from the date of invoice. Trade payable are normally settled within 90-120 days of the date of purchase.

Typically the Group ensures that it has sufficient cash in hand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

## 33 Financial instruments (continued)

### Liquidity risk (continued)

The following are the remaining contractual maturities of the Group's financial liabilities at the reporting dates, including estimated interest payments:

| | Carrying amount AED'000 | Total AED'000 | 2 months or less AED'000 | 2-12 months AED'000 | 1-2 years AED'000 | More than 2 years AED'000 |
|---|---|---|---|---|---|---|
| | | ---------------- Contractual cash flows ---------------- | | | | |
| **At 31 December 2014** | | | | | | |
| ***Non-derivative financial liabilities*** | | | | | | |
| **Bank borrowings** | **1,869,570** | **(1,935,615)** | **(336,123)** | **(791,282)** | **(352,399)** | **(455,811)** |
| **Trade and other payables** | **806,915** | **(806,915)** | **(135,279)** | **(647,223)** | **(24,413)** | **-** |
| **Due to related parties** | **63,697** | **(63,697)** | **(40,242)** | **(19,600)** | **(3,855)** | **-** |
| ***Derivative financial liabilities*** | | | | | | |
| **Currency swaps** | **3,835** | **(3,835)** | **-** | **(3,835)** | **-** | **-** |
| | **2,744,017** | **(2,810,062)** | **(511,644)** | **(1,461,940)** | **(380,667)** | **(455,811)** |
| At 31 December 2013 | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| Bank borrowings | 1,824,136 | (1,912,076) | (82,641) | (867,514) | (335,010) | (626,911) |
| Trade and other payables | 980,150 | (980,150) | (88,205) | (867,640) | (24,305) | - |
| Due to related parties | 59,109 | (59,109) | (44,763) | (14,346) | - | - |
| *Derivative financial liabilities* | | | | | | |
| Currency swaps | 1,736 | - | (7,233) | (7,322) | - | - |
| Interest rate swaps | 471 | (471) | (471) | - | - | - |
| | 2,865,602 | (2,951,806) | (223,313) | (1,756,822) | (359,315) | (626,911) |

### Equity risk

The Group is not significantly exposed to equity price risk.

### Capital management

The Group's policy is to maintain a strong capital base to sustain future development of the business and maintain investor and creditor confidence. The Board seeks to maintain a balance between the higher returns and the advantages and security offered by a sound capital position.

## 33 Financial instruments (continued)

**Capital management (continued)**

The Group manages its capital structure and make adjustments to it in light of changes in business conditions. Capital comprises share capital, share premium reserve, capital reserve, legal reserve, translation reserve, general reserve and retained earnings and amounts to AED 3,035 million as at 31 December 2014 *(2013: AED 2,639 million)*. Debt comprised interest bearing loans and borrowings.

The debt equity ratio at the reporting date was as follows:

| | **2014** | 2013 |
|---|---|---|
| | **AED'000** | AED'000 |
| Equity | **3,034,813** | 2,639,435 |
| | ======= | ======= |
| Debt | **1,747,284** | 1,797,136 |
| | ======= | ======= |
| Debt equity ratio | **0.58** | 0.68 |
| | === | === |

There is no change in the Group's approach for capital management during the current year.

**Fair values**

**(a)** ***Accounting classifications and fair values***

The Group holds financial liabilities, measured at fair value which are classified in Level 2 at the reporting date (includes cross currency swaps).

Further, the Group does not disclose the fair values of financial instruments such as trade and other receivables, due from / due to related parties, trade and other payables and bank borrowings because their fair value approximates to their book values due to the current nature of these instruments as the effect of discounting is immaterial. In case they are non-current in nature, the fair value is estimated based on the present value of future cash flows, discounted at the market rate of interest at the reporting date.

***(b) Valuation techniques and significant unobservable inputs***

The valuation technique used in measuring Level 2 fair values, as well as the significant unobservable inputs used is market comparison technique is as follows:

## 33 Financial instruments (continued)

**Fair values**

***(b) Valuation techniques and significant unobservable inputs (continued)***

*Financial instruments measured at fair value*

The fair values of cross currency swap is based on quotation/ rates provided by the counterparty banks and financial institutions.

## 34 Hyperinflationary accounting

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of a measuring unit current at the statement of financial position date and that corresponding figures for previous periods be stated in the same terms to the latest statement of financial position date. This has been applied in RAK Ceramics PJSC Limited, a subsidiary in Iran (from 2013), and in Ceramic Ras Al Khaimah Sudanese Investment Company, a subsidiary in Sudan (from 2014) and hence the impact has been calculated by means of conversion factors derived from the Consumer Price Index (CPI). The conversion factors used to restate the financial statements of the subsidiaries are as follows:

| | ---------------Iran------------- | | --------------Sudan------------ | |
|---|---|---|---|---|
| | **Index** | **Conversion factor** | **Index** | **Conversion factor** |
| 31 December 2014 | 548 | 1.120 | 459 | 1.004 |
| 31 December 2013 | 489 | 1.315 | 457 | 1.419 |
| 31 December 2012 | 372 | 1.383 | 322 | 1.460 |
| 31 December 2011 | 269 | 1.224 | 220 | 1.212 |
| 31 December 2005 | 104 | - | 100 | 1.060 |
| 31 December 2004 | - | - | 94 | - |

The above mentioned restatement is affected as follows:

i. Financial statements prepared in the currency of a hyperinflationary economy are stated after applying the measuring unit current at statement of financial position date and corresponding figures for the previous period are stated on the same basis. Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current at the statement of financial position date. Monetary items are money held and items to be recovered or paid in money;
ii. Non-monetary assets and liabilities that are not carried at amounts current at the statement of financial position date and components of shareholders' equity are restated by applying the relevant conversion factors;
iii. Comparative financial statements are restated using general inflation indices in terms of the measuring unit current at the statement of financial position date;
iv. All items in the income statement are restated by applying the relevant quarterly average or year-end conversion factors; and
v. The effect on the net monetary position of the Group is included in the consolidated statement of profit or loss as a monetary loss/gain from hyperinflation.

## 34 Hyperinflationary accounting (continued)

The application of the IAS 29 restatement procedures has the effect of amending certain accounting policies at the subsidiary's level which are used in the preparation of the financial statements under the historical cost conversion. The impact of hyperinflationary accounting on the consolidated financial statements due to Iran and Sudan subsidiaries is as follows:

| | Iran AED'000 | Sudan AED'000 | Total AED'000 |
|---|---|---|---|
| **Hyperinflation effect recorded upto 31 December 2013** | **169,707** | **-** | **169,707** |
| **For the year 2014** | | | |
| ***Impact on statement of financial position*** | | | |
| Increase in property plant and equipment | **31,504** | **107,657** | **139,161** |
| Increase in inventories | **4,546** | **50,256** | **54,802** |
| Increase in other assets | **-** | **10,622** | **10,622** |
| Increase in net book value | **36,050** | **168,535** | **204,585** |
| *Allocated to:* | | | |
| Increase in other comprehensive income due to cumulative hyperinflation | **36,050** | **168,535** | **204,585** |

| | 2014 AED'000 | 2014 AED'000 | 2014 AED'000 |
|---|---|---|---|
| ***Impact on profit or loss:*** | | | |
| Increase in depreciation charge for the year | **26,336** | **12,482** | **38,818** |
| Decrease in other income | **(445)** | **(648)** | **(1,093)** |
| (Gain)/loss on net monetary position | **(10,524)** | **29,348** | **18,824** |
| | **15,367** | **41,182** | **56,549** |

### 35 Segment reporting

***Basis for segmentation***

The Group has broadly three reportable segments as discussed below, which are the Group's strategic business units. The strategic business units operate in different sectors and are managed separately because they require different strategies. The following summary describes the operation in each of the Group's reportable segments:

| | |
|---|---|
| *Ceramics products* | includes manufacture and sale of ceramic wall and floor tiles, GresPorcellanato and bath ware products. |
| *Contracting products* | includes construction projects, civil works and contracting for the supply, installation, execution and maintenance of electrical and mechanical works. |
| *Other industrial* | includes pharmacy, power, table ware, paints, plastic and gypsum and decorations, glue, chemicals, and faucets. |
| *Others* | other operations include food and beverages, trading, travel, logistics, hotel, real estate and warehousing. |

***Information about the reportable segments***

Information regarding the operations of each separate segment is included below. Performance is measured based on segment profit as management believes that profit is the most relevant factor in evaluating the results of certain segments relative to other entities that operate within these industries.

| | **Ceramics Products AED'000** | **Contracting AED'000** | **Other industrial AED'000** | **Others AED'000** | **Eliminations AED'000** | **Total AED'000** |
|---|---|---|---|---|---|---|
| ***Year ended 31 December 2014*** | | | | | | |
| **External revenue** | **2,627,525** | **254,340** | **136,927** | **105,735** | **-** | **3,124,527** |
| **Inter segment revenue** | **188,112** | **41,967** | **158,019** | **109,218** | **(497,316)** | **-** |
| **Reportable segment profit before tax** | **324,109** | **(22,640)** | **76,829** | **16,054** | **(43,446)** | **350,906** |
| **Interest income** | **26,096** | **1,007** | **175** | **50** | **(10,078)** | **17,250** |
| **Interest expense** | **55,052** | **1,091** | **8** | **860** | **(110)** | **56,901** |
| **Depreciation and amortisation** | **128,309** | **36,268** | **6,872** | **5,944** | **-** | **177,393** |
| **Share of profit of equity accounted investee** | **1,020** | **29** | **31,393** | **4,041** | **1,525** | **38,008** |
| **Reportable segment assets** | **6,811,018** | **521,689** | **875,046** | **368,549** | **(2,576,427)** | **5,999,875** |
| **Capital expenditure** | **1,034,293** | **142,482** | **965** | **13** | **-** | **1,177,753** |
| **Reportable segment liabilities** | **3,502,769** | **470,627** | **108,507** | **161,570** | **(1,278,411)** | **2,965,062** |
| | ======= | ===== | ===== | ====== | ======= | ======= |

### 35 Segment reporting (continued)

***Information about the reportable segments (continued)***

| | Ceramics Products AED'000 | Contracting AED'000 | Other industrial AED'000 | Others AED'000 | Eliminations AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| *Year ended 31 December 2013* | | | | | | |
| External revenue | 2,715,197 | 453,618 | 40,144 | 139,879 | - | 3,348,838 |
| Inter segment revenue | 358,280 | 75,317 | 198,723 | 123,061 | (755,381) | - |
| Reportable segment profit before tax | 318,484 | (1,690) | 46,298 | 6,177 | (69,145) | 300,124 |
| Interest income | 28,312 | 943 | 59 | 133 | (8,528) | 20,919 |
| Interest expense | 74,724 | 695 | 5 | 1,853 | (792) | 76,485 |
| Depreciation and amortisation | 112,181 | 15,285 | 6,855 | 6,252 | (1,126) | 139,447 |
| Share of profit of equity accounted investee | (2,279) | (161) | 31,598 | 639 | 822 | 30,619 |
| Reportable segment assets | 6,479,801 | 925,561 | 384,394 | 394,374 | (2,504,834) | 5,679,296 |
| Capital expenditure | 88,556 | 27,362 | 514 | 463 | - | 116,895 |
| Reportable segment liabilities | 3,481,618 | 495,691 | 128,368 | 200,000 | (1,265,816) | 3,039,861 |
| | ======= | ===== | ===== | ====== | ======== | ======= |

**Geographical information**

The ceramic products, contracting and other industrial segments are managed on worldwide basis, but operate manufacturing facilities primarily in UAE, India, Iran, China and Bangladesh.

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets. Investment in equity accounted investees is presented based on the geographical location of the entity holding the investment.

***Revenue***

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| Middle East (ME) | **1,686,793** | 1,785,636 |
| Euro zone countries | **394,037** | 390,499 |
| Asian countries (other than ME) | **763,147** | 779,385 |
| Others | **280,550** | 393,318 |
| | ----------- | ----------- |
| | **3,124,527** | 3,348,838 |
| | ======= | ======= |
| ***Non-current assets*** | | |
| Middle East (ME) | **2,036,809** | 1,227,954 |
| Asian countries (other than ME) | **502,118** | 575,844 |
| Others | **50,116** | 80,330 |
| | ------------ | ------------ |
| | **2,589,043** | 1,884,128 |
| | ======= | ======= |

### 35 Segment reporting (continued)

**Reconciliation of reportable segment**

| | **2014 AED'000** | 2013 AED'000 |
|---|---|---|
| ***Revenues*** | | |
| Total revenue for reportable segments | **3,621,843** | 4,104,219 |
| Elimination of inter segment revenue | **(497,316)** | (755,381) |
| | **3,124,527** | 3,348,838 |
| ***Profit before tax*** | | |
| Total profit or loss for reportable segments after tax | **394,352** | 369,269 |
| Elimination of inter-segment profits | **(43,446)** | (69,145) |
| | **350,906** | 300,124 |
| ***Assets*** | | |
| Total assets for reportable segment | **5,848,599** | 5,464,967 |
| Equity accounted investees | **151,276** | 214,329 |
| | **5,999,875** | 5,679,296 |
| ***Liabilities*** | | |
| Total liabilities for reportable segments | **2,965,062** | 3,039,861 |
| ***Other material items*** | | |
| Interest income | **17,250** | 20,919 |
| Interest expense | **56,901** | 76,485 |
| Capital expenditure | **1,177,753** | 116,895 |
| Depreciation and amortization | **177,393** | 139,447 |

## 36 Subsidiaries and equity accounted investees

| Name of the entity | Country of incorporation | Ownership interest **2014** | 2013 | Principal activities |
|---|---|---|---|---|
| **A** **Subsidiaries of Ras Al Khaimah Ceramics PSC** | | | | |
| RAK Ceramics (Bangladesh) Limited | Bangladesh | **72.41%** | 72.41% | Manufacturers of ceramic tiles and sanitary ware |
| RAK (Gao Yao) Ceramics Co. Limited | China | **100%** | 100% | Manufacturers of ceramic tiles |
| Ceramic Ras Al Khaimah Sudanese Investment Company (refer note 20 and 21) | Sudan | **100%** | 100% | Manufacturers of ceramic tiles |
| RAK Ceramics PJSC Limited | Iran | **80%** | 80% | Manufacturers of ceramic tiles |
| RAK Ceramics India Private Limited | India | **90%** | 90% | Manufacturers of ceramic tiles and sanitary ware |
| Elegance Ceramics LLC | UAE | **100%** | 100% | Manufacturers of ceramic tiles |
| Prestige Tiles Pty Limited | Australia | **95%** | 95% | Trading in ceramic tiles |
| RAK Bathware Pty Limited | Australia | **100%** | 100% | Trading in sanitary ware |
| Acacia Hotels LLC | UAE | **100%** | 100% | Lease of investment property |
| Electro RAK LLC | UAE | **51.04%** | 51.04% | Mechanical, electrical and plumbing (MEP) contracting |
| RAK Ceramics Holding LLC | UAE | **100%** | 100% | Investment company |
| Al Jazeerah Utility Services LLC | UAE | **100%** | 100% | Provision of utility services |
| RAK Ceramics (Al Ain) and RAK Ceramics (Abu Dhabi) (refer note 38) | UAE | **100%** | 100% | Trading in ceramic tiles and sanitary ware |
| Ceramin FZC LLC | UAE | **100%** | 100% | Manufacturing, processing import& export of industrial minerals |
| Al Hamra Construction Company LLC | UAE | **100%** | 50% | Construction company |

## 36 Subsidiaries and equity accounted investees (continued)

| | Name of the entity | Country of incorporation | Ownership interest 2014 | 2013 | Principal activities |
|---|---|---|---|---|---|
| **A** | **Subsidiaries of Ras Al Khaimah Ceramics PSC (continued)** | | | | |
| | RAK Porcelain LLC (refer note (5(a)) | UAE | 50% | - | Manufacturing of porcelain table |
| **B** | **Subsidiaries of RAK Ceramics Bangladesh Limited** | | | | |
| | RAK Power Private Limited | Bangladesh | **57%** | 57% | Power generation for captive consumption |
| | RAK Pharmaceuticals Private Limited (refer note 20 and 21) | Bangladesh | **55%** | 55% | Manufacturing of pharmaceuticals |
| **C** | **Subsidiaries of Electro RAK LLC** | | | | |
| | Encom Trading LLC | UAE | **90%** | 90% | Trading in electrical goods |
| | RAK Industries LLC (refer note (i) below) | UAE | **97%** | 97% | Manufacturing and trading of switchgears |
| | Emirates Heavy Engineering LLC (refer note (ii) below) | UAE | **50%** | 50% | Heavy industrial engineering and related fabrication works |
| | Electro RAK (India) Private Limited | India | **51%** | 51% | Electrical, plumbing, ducting, air - conditioning works |
| **D** | **Subsidiary of Emirates Heavy Engineering LLC** | | | | |
| | RAK Fabrication LLC (refer note (iii) below) | UAE | **100%** | 100% | Fabrication contract works |
| **E** | **Subsidiaries of RAK Ceramics Holding LLC** | | | | |
| | RAK Piling LLC (refer note 38) | UAE | **76%** | 76% | Piling and foundation works |
| | RAK Watertech LLC | UAE | **90%** | 90% | Waste-water treatment works |
| | Al Hamra Aluminium and Glass Industries LLC | UAE | **75%** | 75% | Aluminium and glass works |
| | RAK Paints LLC | UAE | **100%** | 100% | Manufacturers of paints and allied products |

### 36 Subsidiaries and equity accounted investees (continued)

| | Name of the entity | Country of incorporation | Ownership interest 2014 | 2013 | Principal activities |
|---|---|---|---|---|---|
| **E** | **Subsidiaries of RAK Ceramics Holding LLC (continued)** | | | | |
| | RAK Gypsum and Decorations LLC | UAE | **60%** | 60% | Gypsum works |
| | AAA Contractors LLC | UAE | **100%** | 100% | Construction company |
| | RAK Universal Plastics Industries LLC (refer note (iv) below) | UAE | **66%** | 66% | Manufacturers of pipes |
| | RAK Logistics LLC (refer note (v) below) | UAE | **99%** | 99% | Freight forwarding and logistics service |
| | Al Hamra For Travels (refer note 38) | UAE | **100%** | 100% | Airline ticket booking agent |
| | RAK Ceramics Typing Est. | UAE | **100%** | 100% | Typing, photocopying and translation services |
| **F** | **Subsidiaries of RAK Logistics LLC** | | | | |
| | RAK Logistics Hong Kong Limited | Hong Kong | **80%** | 80% | Transport/logistics |
| | Societe RAK Logistique France Sarl | France | **80%** | 80% | Transport/logistics |
| | RAK Logistics UK Limited | UK | **80%** | 80% | Transport/logistics |
| | RAK Logistics Europa SociedadLimitada | Spain | **80%** | 80% | Transport/logistics |
| | RAK Logistics Guangzhou Limited (refer note (vi) below) | China | **80%** | 80% | Transport/logistics |
| **G** | **Subsidiary of RAK Paints LLC** | | | | |
| | Alltek Emirates LLC (refer note (vii) below) | UAE | **99%** | 99% | Manufacturers of paints and adhesive products |
| **H** | **Subsidiary of RAK Ceramics India Private Limited** | | | | |
| | RAK Logistics India Private Limited (refer note (viii) below) | India | **-** | 100% | Transport/logistics |

## 36 Subsidiaries and equity accounted investees (continued)

| | Name of the entity | Country of incorporation | Ownership interest 2014 | 2013 | Principal activities |
|---|---|---|---|---|---|
| **I** | **Subsidiaries of Ceramin FZC LLC** | | | | |
| | Ceramin LLC | UAE | **100%** | 100% | Trading of industrial minerals |
| | Ceramin India Private Limited | India | **100%** | 100% | Extraction, distribution and and export of clay and other minerals |
| | Ceramin SDN BHD | Malaysia | **100%** | 100% | Extraction, distribution and export of clay other minerals |
| | PT. RAK Minerals Indonesia (refer note 5(b)) | Indonesia | **-** | 100% | Mining, trading and contracting |
| | Feldspar Minerals Co. Limited (refer note (ix) below) | Thailand | **64%** | 64% | Extraction, distribution and export of clay and other minerals |
| **J** | **Subsidiary of Elegance Ceramics LLC** | | | | |
| | Venezia Ceramics (refer note below) | UAE | **100%** | 100% | General trading |
| **K** | **Jointly controlled entities of Ras Al Khaimah Ceramics PSC** | | | | |
| | RAK Porcelain LLC (refer note 5(a)) | UAE | **-** | 50% | Manufacturing of porcelain table |
| | RAK Distribution Europe | Italy | **50%** | 50% | Trading in ceramic tiles |
| | RAK Ceramics UK Limited | UK | **50%** | 50% | Trading in ceramic tiles and sanitary ware items |
| | RAK Ceramics Deutschland GMBH | Germany | **50%** | 50% | Trading in ceramic tiles and sanitary ware items |
| | RAK Saudi LLC | Saudi Arabia | **50%** | 50% | Trading in ceramic tiles and sanitary ware items |
| | Laticrete RAK LLC (refer note (x) below and refer 38) | UAE | **51%** | 51% | Manufacturer of glue/adhesive for fixing the tiles |

## 36 Subsidiaries and equity accounted investees (continued)

| | Name of the entity | Country of incorporation | Ownership interest 2014 | 2013 | Principal activities |
|---|---|---|---|---|---|
| **K** | **Jointly controlled entities of Ras Al Khaimah Ceramics PSC (continued)** | | | | |
| | RAK Chimica LLC (refer note (x) below) | UAE | **55.55%** | 55.55% | Manufacturing of chemicals used in ceramic industries |
| | Kludi RAK LLC (refer note (x) below) | UAE | **51%** | 51% | Manufacturing of water tap faucets etc. |
| | RAK Warehouse Leasing LLC | UAE | **50%** | 50% | Leasing industrial warehouse spaces |
| | ARAK International Trading Company | Saudi Arabia | **50%** | 50% | Trading in ceramics tiles |
| | RAK Ceramics Holding LLC Georgia (refer note (x) below) | Georgia | **51%** | 51% | Trading in ceramic tiles and sanitary ware items |
| | Agora Commerce and Investments FZ-LLC | Congo | **50%** | 50% | Investment company |
| | RAK Holdings Private Limited (refer note 5(b)) | Bangladesh | **-** | 40% | Investment company |
| **L** | **Associates of RAK Ceramics (Bangladesh) Limited** | | | | |
| | RAK Securities and Services Private Limited | Bangladesh | **35%** | 35% | Providing security services |
| | RAK Paints Private Limited | Bangladesh | **47%** | 47% | Manufacturing paints |
| | RAK Moshfly (BD) Private Limited (refer note 38) | Bangladesh | **20%** | 20% | Manufacturing pesticides |
| **M** | **Associate of Ceramin FZC LLC** | | | | |
| | PalangSuriya Company Limited | Thailand | **40%** | 40% | Extraction, distribution and export of clay and other minerals |

## 36 Subsidiaries and equity accounted investees (continued)

| | Name of the entity | Country of incorporation | Ownership interest 2014 | 2013 | Principal activities |
|---|---|---|---|---|---|
| **N** | **Subsidiary of Ceramin India Private Limited** | | | | |
| | Shri Shiridi Sai Mines | India | **97%** | 97% | Mining activities |
| **O** | **Jointly controlled entity of Prestige Tiles Pty Limited** | | | | |
| | Massa Imports Pty Limited | Australia | **50%** | 50% | Trading in ceramic tiles |
| **P** | **Jointly controlled entity of RAK Piling LLC** | | | | |
| | RAK Piling Bangladesh Private Limited (refer note 15(ii) below) | Bangladesh | **-** | 50% | Real estate development, mechanical and civil works |
| **Q** | **Jointly controlled entity of RAK Ceramics Holding LLC** | | | | |
| | Keraben Gulf LLC (refer note (x) below) | UAE | **51%** | 51% | General trading |
| **R** | **Jointly controlled entity of RAK Logistics LLC** | | | | |
| | RAK Logistics South Africa (Pty) Limited | South Africa | **40%** | 40% | Transport/logistics |
| **S** | **Jointly controlled entities of RAK Porcelain LLC** (refer note 15(i)) | | | | |
| | Restofair RAK LLC (refer note (xi) below) | UAE | **41%** | - | Contracting of furnishing the public firm |
| | RAK Porcelain Europe SA (refer note (xi) below) | Luxemburg | **71%** | - | Import and Export of porcelain |

### 36 Subsidiaries and equity accounted investees (continued)

| | Name of the entity | Country of incorporation | Ownership interest | | Principal activities |
|---|---|---|---|---|---|
| **T** | **Held for sale (refer note 20)** | | | | |
| | Ceramic Ras Al Khaimah Sudanese Investment Company | Sudan | **100%** | - | Manufacturers of ceramic tiles |
| | RAK Pharmacueticals Private Limited | Bangladesh | **55%** | - - | Manufacturers of pharmaceuticals |
| | RAK Global Logistics LLC | UAE | **51%** | 51% | Logistics |
| | RAK Composites LLC | UAE | **80%** | 80% | Boat manufacturing |

(i) The Group holds 70% equity interest in RAK Industries LLC through Electro RAK LLC. In addition to this, Encom Trading LLC in which Electro RAK LLC holds 90% equity interest, also has 30% equity interest in RAK Industries LLC resulting in a 97% holding by Electro RAK LLC. Accordingly, the Group effectively holds 49.51% equity interest of RAK Industries LLC.

(ii) In addition to the 50% equity interest in Emirates Heavy Engineering LLC held through Electro RAK LLC, the Group also holds the remaining 50% equity interest through RAK Ceramics Holdings LLC, a fully owned subsidiary of the Group. Accordingly, the Group effectively holds 75.5% equity interest in Emirates Heavy Engineering LLC.

(iii) RAK Fabrication LLC is a wholly owned subsidiary of Emirates Heavy Engineering LLC. The Group holds 75.5% equity interest in Emirates Heavy Engineering LLC, 50% through RAK Ceramics Holding LLC and 25.5% through Electro RAK LLC. Accordingly, the Group effectively holds 75.5% equity interest of RAK Fabrication LLC.

(iv) The Group holds 66% equity interest in RAK Universal Plastics LLC through RAK Ceramics Holding LLC. In addition to this, RAK Watertech LLC in which RAK Ceramics Holding LLC holds 90% equity interest, also has 24% equity interest in RAK Universal Plastic LLC. Accordingly, the Group effectively holds 87.6% equity interest in RAK Universal Plastics LLC.

(v) In addition to the 99% equity interest held in RAK Logistics LLC, the Group also holds the remaining 1% through Al Hamra Construction Company LLC (a fully owned subsidiary of the Group). Accordingly, the Group effectively holds 100% equity interest in RAK Logistics LLC.

(vi) RAK Logistics Guangzhou Limited is a wholly owned subsidiary of RAK Logistics Hong Kong Limited. The Group holds 80% equity interest in RAK Logistics Hong Kong Limited through RAK Logistics LLC. Accordingly, the Group effectively holds 80% equity interest in RAK Logistics Guangzhou Limited.

(vii) In addition to 99% equity interest in Altek Emirates LLC held by RAK Paints LLC, the Group also holds remaining 1% equity interest which is held by RAK Ceramics Holding LLC, a fully owned subsidiary of the Group. Accordingly the entity has been treated as fully owned subsidiary of the Group.

## 36 Subsidiaries and equity accounted investees (continued)

(viii) During 2013, the Group incorporated RAK Logistics India Private Limited, India to carry on and undertake the business as logistics solution providers, charterers and related jobs. During the current year, the Group derecognised its investment in RAK Logistics India Private Limited as the Company was not operational.

(ix) Ceramin FZC holds 40% equity interest in Feldspar Minerals Company Limited. In addition to this, PalangSuriya Company Limited in which Ceramin FZC holds 40% equity interest, also has 60% equity interest in this entity. Accordingly, the Group effectively holds 64% equity interest of Feldspar Minerals Company Limited.

(x) Laticrete RAK LLC, RAK Chimica LLC, Kludi RAK LLC, RAK Ceramics Holding LLC Georgia and Keraben Gulf LLC have been considered as Joint Ventures of the Group since the Group exercise only joint control over the financial and operating policies of these entities with other partners.

(xi) RAK Porcelain LLC has 71% and 41% equity interest in RAK Porcelain Europe SA and Restofair RAK LLC respectively, which have been considered as Joint Ventures of the Company since the Company exercise only joint control over the financial and operating policies of these entities with other partners. Accordingly, the Group effectively holds 35.5% and 20.5% equity interest of RAK Porcelain Europe SA and Restofair RAK LLC respectively.

## 37 Restatement

Until the previous year, the Group recognised the effect of price change in prior periods on the financial statements of the subsidiaries operating in a hyperinflation economy directly in the consolidated statement of changes in equity.

In 2014, the Group has changed the accounting policy and decided to present the effect of price changes in prior periods on the financial statements of these subsidiaries in other comprehensive income. The application of this accounting policy provides more reliable and relevant information as hyperinflation is economically associated with foreign currency movements which are also presented under other comprehensive income. Accordingly, the Group management is of the view that such a presentation of hyperinflation adjustment will be more appropriate. This change in accounting policy has been applied retrospectively and accordingly the Group has restated the comparative period to reverse the amount of AED 169.71 million previously recognised directly in equity as at 31 December 2013 and recognise it under other comprehensive income. Such amount has been presented separately in hyperinflation reserve in equity.

The applicability of IAS 29 to the Group was from 2013, therefore restatement does not affect previous years and accordingly three column statement of financial position has not been prepared.

Further, the Group has decided to present separately foreign currency translation differences pertaining to hyperinflationary economies in hyperinflation reserve. Accordingly, the Group has made the following reclassifications:

## 37 Restatement (continued)

| | Translation reserve AED' 000 | Hyperinflation reserve AED'000 |
|---|---|---|
| Balance as at 1 January 2013 (as previously stated) | **418,893** | **-** |
| Reclassification | **(365,225)** | **365,225** |
| | ---------- | ---------- |
| Balance as at 1 January 2013 (restated) | **53,668** | **365,225** |
| | ===== | ====== |
| Other comprehensive income for the year 2013 (as previously stated) | **45,683** | **-** |
| Reclassification | **(30,722)** | **30,722** |
| | --------- | -------- |
| Other comprehensive income (restated) | **14,961** | **30,722** |
| | ===== | ===== |

Also refer note 34.

## 38 Significant accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the consolidated financial statements are as follows.

*Revenue from construction contracts*

Revenue from construction contracts is recognised in profit or loss when the outcome of the contract can be estimated reliably. The measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of contract revenue may increase or decrease from period to period.

*Project stage of completion and cost to complete estimates*

At each date of the consolidated statement of financial position, the Group is required to estimate stage of completion and costs to complete on fixed price and modified fixed price contracts. These estimates require the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. These estimates also include the cost of potential claim by contractors and the costs of meeting other contractual obligations to the customers. Effects of any revision to these estimates are reflected in the year in which these estimates are revised.

## 38 Significant accounting estimates and judgements (continued)

*Estimated useful life and residual value of property, plant and equipment and investment properties*

The Group estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and on the historical experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The Group's management has carried out a review of the residual values and useful lives of property, plant and equipment and investment properties and conclude that no revision is required in current year. Refer note 12.

*Fair valuation of investment properties*

The Group follows the cost model under IAS 40 whereby investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Fair value of investment properties are disclosed in note 14 of the consolidated financial statements. The fair values for building have been determined taking into consideration the market replacement cost. Fair values for land have been determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties. Should the key assumptions change, the fair value of investment properties may significantly change and result in an impairment of the investment properties.

*Provision for obsolete inventories and net realisable value write down on inventories*

The Group reviews its inventory to assess loss on account of obsolescence and any write down for net realisable value adjustment on a regular basis. In determining whether provision for obsolescence should be recorded in profit and loss, the Group makes judgments as to whether there is any observable data indicating that there is any future saleability of the product and the net realisable value for such product. Provision for net realisable value write down is made where the net realisable value is less than cost based on best estimates by the management. The provision for obsolescence of inventory is based on its ageing and the past trend of consumption.

*Impairment of goodwill*

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses (refer accounting policy on impairment). Testing for impairment requires management to estimate the recoverable amount of the cash generating unit to which the goodwill is allocated.

*Impairment of property, plant and equipment and intangible assets*

Property, plant and equipment are tested for impairment when there is an indication of impairment. Testing for impairment of these property, plant and equipment and intangible assets requires management to estimate the recoverable amount of the cash generating unit.

## 38 Significant accounting estimates and judgements (continued)

*Impairment losses on receivables*

The Group reviews its receivables to assess impairment at least on an annual basis. The Group's credit risk is primarily attributable to its trade receivable, due from related parties and other receivables. In determining whether impairment losses should be recognised in profit and loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

*Identifiable assets and liabilities taken over on acquisition of subsidiaries*

The Group separately recognises assets and liabilities on the acquisition of a subsidiary when it is probable that the associated economic benefits will flow to the acquirer or when, in the case of liability, it is probable that an outflow of economic resources will be required to settle the obligation and the fair value of the asset or liability can be measured reliably. Intangible assets and contingent liabilities are separately recognised when they meet the criteria for recognition set out in IFRS 3.

*Current and deferred tax*

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period in which a determination is made.

*Consolidation – de facto control*

As a result of adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investee. As part of the new control model, the Group has assessed for all its investees whether it has power over an investee, exposure or right to variable returns from its involvement with the investee and ability to use its power to affect those returns. In determining control, judgements have been exercised on the relationship of the Group with the investees based on which conclusions have been drawn.

## 39 Subsequent events

The Board of Directors of the Company, at its meeting held on 12 March 2015 resolved to sell its entire shareholding of RAK-Mosfly (Bangladesh) Private Limited, Al Hamra for Travels and Laticrete RAK LLC. Further, the Group also decided to close the operations of RAK Piling LLC.

## 40 Comparative figures

Certain comparative figures have been reclassified/regrouped, wherever necessary to conform to the presentation adopted in these consolidated financial statements.