Ras Al Khaimah Ceramics PSC
and its subsidiaries

Consolidated financial statements
31 December 2011

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To the Shareholders,

The Directors are pleased to present their report on the business & operations along with Audited Consolidated Financial Statement for the year ended December 31st, 2011.

The past year has been a challenging year for the global economy and for the Middle East region with several economic and regional issues pending resolution and impacting the decision making for growth and development affecting overall demand and sentiment across sectors with the building materials and contracting segments being impacted the most. The regional uncertainty has also contributed to above inflation energy fuel and freight price growth witnessed during the period. These challenges were faced by the Company applying its business model of diversified market and supply chain strategies to mitigate the revenue and price risks in its core ceramics businesses. During the year, the company continued to reduce its dependence and share of revenues and profits from contracting segment and focus on the growth of Ceramics and related industrial and supply chain businesses.

Summary of Results

As a result of the above market situation and company initiatives, the Company's consolidated net profits after taxes and minority interest for the year reached AED 205.2 million while the revenues were maintained at AED 3.34 billion. The Gross profit of the company declined during the year from 24.9% to 23.5% with over 86% of the decrease arising from reduction and reorganization of non-ceramics businesses. During the year, a 10% increase in share capital was done through issue of bonus shares as per the resolution of the Extra Ordinary General Meeting held on 22nd April, 2011. The Company's key financial and operational indicators in 2011 reflect its achievements and reiterate its continued commitment to stable & sustainable growth.

Group Performance Highlights

Particulars	Unit	2011	2010	Change
Net Revenue	AED Mio	3,336.8	3,336.7	
GP Margin	%	23.5%	24.9%	(140) bps
Net profit to owners	AED Mio	205.2	272.3	(24.6%)

Particulars	Unit	2011	2010	Change
Total Assets	AED Mio	5,725.6	5,952	(3.8%)
Share Capital	AED Mio	743.2	675.6	10.0%
Shareholders' Equity	AED Mio	2,081.7	2,017.0	3.2%
Gross Debt	AED Mio	2167.1	2207.05	-40.0
Earnings per share	AED	0.28	0.37	(24.32%)
Salesto Non-current assets	Times	2.39	2.10	29 bps
Debt/equity Ratio	Times	0.97	1.00	5bps

Results Analysis

The Company had, during 2004-2010, successfully completed its expansion projects in its core ceramics business to position itself in last 3 consecutive years among the largest global ceramic producers with over 115 million square meters of tiles capacity supported by 4 million pieces of sanitary ware capacity.

The 2011 results were achieved by the Company in the above strategic context focusing on quality of earnings.-In 2011, the company leveraged its export relationships in over 150countries in its core ceramic markets and continued to foster growth of investments made in related manufacturing industrial businesses with reduction in activities related to Contracting business focusing on reduction in scale and recovery/ protection of assets. It also continued close monitoring and control of production and operating costs to improve its profitability despite the recessionary conditions and contraction in the construction markets world-wide. Accordingly,

- The Company's consolidated **Revenues** in 2011increased marginally as compared to2010 and stood at 3.3 billion. The increase in revenue has been witnessed in ceramics (**AED 70 Mio +2.60%**) and other industrial segment **(AED 21 Mio +66.73%**).This increase has been set off by a decrease in contracting revenue **AED 91.30 Mio-15.34%**).
- As compared to last year Consolidated **Gross Profit** decreased by 1.4% to reach AED 783.5 million as against AED 830.8 million reached in 2010.Increase in raw material and fuel prices resulted in the incremental cost which was partially offset by decrease in depreciation due to fixed assets useful life restatement in line with generally applicable industry practices.

- The **Administrative, selling and financial expenses** for the year increased by 28.78% to reach AED 812.2 million as compared to AED 630.6 million in previous year. Administrative expenses increased due defensive provisions& impairment policy for inventory, receivables, selling expenses increased in line with volume towards rebates & freight expenses. However finance cost declined due to loan amortization & effective liquidity management.
- The Consolidated **Net Profit** decreased by 29.21% to reach AED 222.4 million as against AED 314.2 million in 2010.
- The consolidated **Non-Current Assets** decreased by 2.3% to reach 2.06 billion from 2.11billion in 2010
- The consolidated **Current Assets** decreased by 4.63% to reach AED 3.66 billion.
- The consolidated **Long Term liabilities** decreased by 4.25% to reach AED 982.9 million as against AED 1026.6million in 2010.
- The consolidated **Current Liabilities** decreased by 7.8% to reach AED 2.5 billion.
- The **Gross debt** remains to acceptable level as a result effective debt management.

Board of Directors

The Board of Directors of the Company comprises

1. Mohammad bin Saud Al Qasimi(Chairman)
2. Ahmad bin Humaid Al Qasimi
3. HamadAbdallah Al Muttawa
4. Dr. KhaterMassaad (Managing Director)
5. Dr. Mohammad Abdul Latif
6. Khaled Abdullah Yousef

Corporate social responsibility

The company participated in and organised several activities to contribute to building awareness and actions in addressing relevant issues and opportunities as good corporate citizen.

Can Collection Day- (23rd February & 8th May 2011)Company employees collected 3,000 aluminium cans from premises Emirates Environmental Group (EEG) campaign.

Emirates Club Sponsorship(March 2011)-Company sponsored RAK Emirates Club during the team's participation in the Asian Football Cup (AFC) Champions League, is part of commitment to support social and sporting initiatives in the emirate

Terry Fox Run(4th March 2011)Company sponsored 2nd Annual RAK Terry Fox Run where 100 employees participated, Funds raised were donated to the UAE University Hospital in Al-Ain for cancer research projects.

RAK Ceramics' Medical Centre managed by RAK Hospital(April 2011)Company's' Medical Centre is now managed by RAK Hospital, in Ras Al Khaimah. This is to provide advanced medical facilities to its staff and ensure their overall wellbeing and good health.Company'sown modern clinic is accessible free of charge to its employees.

Shuttle Bus Service (April 2011)As a part of Company' employee benefits, in April 2011, a bus shuttle service was launched for Group employees, at subsidized rate.

Green Abu Dhabi Project(2nd May 2011)Company donated around 15,000 pieces of tiles to support –'Our Tomorrow' – an environmental awareness campaign required each child involved in the project to paint version of a greener Abu Dhabi

Sponsorship of RAK Open Volleyball Tournament (May 2011)Company sponsored RAK Open Volleyball Tournament in collaboration with KeralaSamajam(socio-cultural organizations of Indian Expatriates)

World No Tobacco Day(31st May 2011)Companyorganiseda seminar in collaboration with RAK Hospital for it employees on World No Tobacco Day campaign to spread the awareness of negative impact of tobacco.

World Environment Day(5th June 2011)Company pledged its support to a greener environment by participating in World Environment Day in collaboration with Emirates Environmental Group (EEG) by allocating recycle paper bins in all the key departments Company. Approximately 750 kgs of paper was collected for re-cycling.

Ramadan Bowling Tournament Sponsorship (August 2011)Company sponsored the RAK Immigration Department's Ramadan Bowling Tournament to support civic-oriented activities during the holy month of Ramadan. The tournament attracted around 100 teams who took part in the championship.

Somalia Famine Relief(August 2011)Company organised a humanitarian campaign to provide aid to drought-hit areas in Somalia and parts of Kenya and Ethiopia. Employees contributed voluntary cash donation to fund food supplies through UNICEF to feed 520 children for one full month.

Forklift Drivers Training Session(21st November 2011)Company' forklift drivers were given training program by professionals to ensure safety and avoid accidents.

UAE Clean-up Campaign(9th December 2011)Company participated in the 10th edition of UAE Clean-up Campaign 2011, organized by Emirates Environmental Group (EEG),Employees volunteered to clean-up a section of RAK Hospital.

Philippines Floods Relief (December 2011)Company raised fund for Flood Relief, in addition clothes, blankets &other non-perishable items useful were sent to Philippines.

Eco – friendly Activities

The company made significant savings on account of Green and fired scrap recycling and installation of Kerajet machine in one of the plants. Further Dust Collector has been installed to avoid dust from the loading area.

Future Outlook

The long term outlook of global demand for Company's core products in its key markets remains optimistic due to trends and expectations on (i) population growth, urbanization and fragmentation of families creating demand for floor space across the world (ii) shortage of housing stock in key markets particularly emerging markets (iii) reconstruction demand in the region (iii) economic surplus from development of economies in Emerging markets and MENA region (iv) Company's stable capacity levels.

However, the real estate markets are globally subject to economic cycles and economic conditions and collapse of global real estate markets in general and regional real estate markets in particular in 2008-09are expected to recover slowly. Based on the above, the company expects to maintain its revenues and profits to the level achieved in 2011. These expectations are not stated to be revenue or profit guidance due to continued unpredictability and uncertainty in the global construction and financial markets.

Financial Reporting

The Company's key accounting policies are articulated in its annual report and are committed to meeting the required financial disclosure norms and standards applicable to it. The Directors of the Company, to the best of their knowledge and belief, state that:

1. The financial statements, prepared by the management, fairly present its financial position, the result of its operation, cash flows and changes in equity.
2. The Company has maintained proper books of accounts.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

4. International financial reporting standards (IFRS) as applicable and reported have been followed in preparation of these financial statements.

5. There are no material events observed which reflect company's inability to continue as a going concern.

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

Corporate Governance

The Company, since inception, has fostered a culture of strong corporate governance rooted in accountability and adoption of ethical practices and transparency in its dealings with stakeholders.

The Board of Directors and management of the company are committed to be compliant with Emirates Securities and commodities Authority announced Corporate Governance program. The Company has maintained compliance well within the framework implemented by ESCA:

Following Steps were taken in 2011:

(1) **Meetings of the Board-** The members of the Board met on six occasions during the year 2011

(2) **Appointment of Chairman-** H.H Sh. Mohammad Bin Saud Al Qassimiwas named as Chairman for the company BOD, in general assembly meeting held on April 7, 2011, after the resignation of H.H. Sh. Saud Bin Saqr Al Qassimi from the chairmanship.

(3) **Meetings of the Audit Committee of the Board-**the Audit Committee meetings took place on four occasions during the year 2011.

Chairman **Managing Director**

P O Box 341145
Level 12, IT Plaza Building
Dubai Silicon Oasis
Dubai
United Arab Emirates

Telephone +971 (4) 356 9500
Main Fax +971 (4) 326 3788
Audit Fax +971 (4) 326 3773
Website www.ae-kpmg.com

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 2011, the consolidated statements of 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 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

Independent auditors' report (continued)

Emphasis of matter

Without qualifying our opinion above, we draw attention to the fact that the corresponding figures presented, excluding the adjustments described in note 34 to the consolidated financial statements, are based on the consolidated financial statements of the Group as at and for the year ended 31 December 2010, which were audited by other auditors who expressed an unmodified opinion on those statements on 1 February 2011. As part of our audit, we have audited the adjustments described in note 34 that were applied to restate the corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied.

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, 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 2011, which may have had a material adverse effect on the business of the Company or its financial position.

Vijendranath Malhotra
(Registration No. 48B)

Dubai, United Arab Emirates

2 6 MAR 2012

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Note	**2011 AED'000**	2010 AED'000 Restated
Revenue	*7*	**3,336,757**	3,336,722
Cost of sales	*8*	**(2,553,166)**	(2,505,873)
Gross profit		**783,591**	830,849
Other income	*9*	**67,843**	50,388
Administrative and general expenses	*10*	**(318,775)**	(184,587)
Selling and distribution expenses	*11*	**(336,212)**	(291,986)
Results from operating activities		**196,447**	404,664
Finance costs	*12*	**(157,190)**	(154,068)
Finance income	*12*	**27,337**	27,101
Share in profit of equity accounted investees	*16*	**156,961**	68,021
Profit before income tax		**223,555**	345,718
Income tax expense	*30*	**(1,150)**	(31,542)
Profit for the year		**222,405**	314,176
Other comprehensive income			
Foreign currency translation differences	*12*	**(154,751)**	(107,751)
Total comprehensive income for the year		**67,654**	206,425
Profit attributable to:			
Owners of the Company		**205,195**	272,254
Non-controlling interest		**17,210**	41,922
		222,405	314,176
Total comprehensive income/(loss)attributable to:			
Owners of the Company		**67,832**	167,513
Non-controlling interest		**(178)**	38,912
		67,654	206,425
Basic and diluted earnings per share (AED)	*24*	**0.28**	0.37

The notes on pages 16 to 74 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 8 and 9.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of financial position

as at 31 December 2011

	Note	31 December 2011 AED'000	31 December 2010 AED'000 Restated*	1 January 2010 AED'000 Restated*
Assets				
Non-current assets				
Property, plant and equipment	*13*	**1,234,592**	1,538,284	1,506,673
Intangible assets	*14*	**7,932**	7,848	3,763
Investment properties	*15*	**153,221**	40,132	39,190
Investments in equity accounted investees	*16*	**665,061**	523,295	495,983
Deferred tax asset	*30*	**792**	516	3,643
		2,061,598	2,110,075	2,049,252
Current assets				
Inventories	*17*	**1,118,983**	1,065,426	1,049,762
Trade and other receivables	*18*	**1,240,632**	1,290,511	1,441,763
Contract work-in-progress	*19*	**53,559**	35,351	88,881
Due from related parties	*29*	**867,413**	812,903	507,859
Investments at fair value through profit or loss	*22*	**145**	309	-
Cash in hand and at banks	*20*	**340,422**	592,829	208,477
Assets held for sale	*21*	**42,860**	44,581	43,913
		3,664,014	3,841,910	3,340,655
Total assets		**5,725,612**	5,951,985	5,389,907
Equity and liabilities				
Equity				
Share capital	*23*	**743,202**	675,639	614,217
Reserves	*23*	**1,338,461**	1,341,334	1,186,772
Equity attributable to owners of the Company		**2,081,663**	2,016,973	1,800,989
Non-controlling interest		**155,612**	190,546	124,507
Total equity		**2,237,275**	2,207,519	1,925,496
Non-current liabilities				
Mezzanine subordinated debt		**-**	-	275,513
Long-term bank borrowings	*25*	**911,744**	954,967	672,917
Staff terminal benefits	*27*	**62,197**	48,444	42,852
Deferred tax liabilities	*30*	**9,033**	23,228	13,306
		982,974	1,026,639	1,004,588
Current liabilities				
Short-term bank borrowings	*25*	**1,255,400**	1,252,088	1,075,629
Trade and other payables	*26*	**1,117,949**	1,219,678	1,160,583
Provision for taxation	*30*	**50,899**	42,659	27,410
Due to related parties	*29*	**73,574**	183,008	169,081
Derivative financial instruments	*28*	**6,132**	18,985	27,120
Liabilities held for sale	*21*	**1,409**	1,409	-
		2,505,363	2,717,827	2,459,823
Total liabilities		**3,488,337**	3,744,466	3,464,411
Total equity and liabilities		**5,725,612**	5,951,985	5,389,907

The notes on pages 16 to 74 form an integral part of these consolidated financial statements.

The consolidated financial statements were authorized for issue on behalf of the Board of Directors on 26 March 2012.

Mohammed Bin Saud Bin Saqr Al Qassimi
Chairman

Dr. Khater Massaad
Managing Director

The independent auditors' report is set out on pages 8 and 9.

* Refer note 34 for details.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Share capital AED'000	Share premium reserve AED'000	Legal reserve AED'000	Translation reserve AED'000	General reserve AED'000	Capital reserve AED'000	Retained earnings AED'000	Total reserve AED'000	Total AED'000	Non -controlling interest AED'000	Total equity AED'000
	--Attributable to equity holders of the Company--										
Balance at 1 January 2010 (as previously reported)	614,217	165,000	192,143	21,269	82,805	-	803,582	1,264,799	1,879,016	124,507	2,003,523
Restatement (refer notes 28 and 34)	-	-	-	-	-	-	(78,027)	(78,027)	(78,027)	-	(78,027)
Restated balance at 1 January 2010	614,217	165,000	192,143	21,269	82,805	-	725,555	1,186,772	1,800,989	124,507	1,925,496
Total comprehensive income for the year											
Profit for the year (as previously reported)	-	-	-	-	-	-	270,222	270,222	270,222	41,065	311,287
Restatement (refer notes 28 and 34)	-	-	-	-	-	-	2,032	2,032	2,032	857	2,889
Profit for the year (as restated)	-	-	-	-	-	-	272,254	272,254	272,254	41,922	314,176
Foreign currency translation differences	-	-	-	(104,741)	-	-	-	(104,741)	(104,741)	(3,010)	(107,751)
Total comprehensive income for the year	-	-	-	(104,741)	-	-	272,254	167,513	167,513	38,912	206,425
Other equity movements											
Transfer to legal reserve	-	-	31,615	-	-	-	(31,615)	-	-	-	-
Transactions with owners of the Company, recognised directly in equity											
Contribution by and distributions to owners of the Company											
Additional shares issued by subsidiaries	-	56,808	-	-	-	-	-	56,808	56,808	45,089	101,897
Directors' fees	-	-	-	-	-	-	(2,000)	(2,000)	(2,000)	-	(2,000)
Bonus shares issued (refer note 23)	61,422	-	-	-	-	-	(61,422)	(61,422)	-	-	-
Capitalization of retained earnings (refer note 23)	-	-	-	-	-	46,296	(46,296)	-	-	-	-
Dividends distributed to non-controlling interest	-	-	-	-	-	-	-	-	-	(17,040)	(17,040)
Changes in ownership interests in subsidiaries											
Acquisition of non-controlling interest, without change in control (refer note 6)	-	-	-	-	-	-	(6,337)	(6,337)	(6,337)	6,337	-
Dilution in equity interest upon further issue of shares, without loss of control (refer note 6)	-	-	-	-	-	-	-	-	-	(7,259)	(7,259)
At 31 December 2010	675,639	221,808	223,758	(83,472)	82,805	46,296	850,139	1,341,334	2,016,973	190,546	2,207,519

Ras Al Khaimah Ceramics PSC and its subsidiaries

Coonsolidated statement of changes in equity
for the year ended 31 December 2011

	Share capital AED'000	Share premium reserve AED'000	Legal reserve AED'000	Translation reserve AED'000	General reserve AED'000	Capital reserve AED'000	Retained earnings AED'000	Total reserve AED'000	Total AED'000	Non - controlling interest AED'000	Total equity AED'000
	---Attributable to equity holders of the Company---										
Balance at 1 January 2011											
(as previously reported)	675,639	221,808	223,758	(83,472)	82,805	46,296	926,134	1,417,329	2,092,968	189,689	2,282,657
Restatement (refer notes 28 and 34)	-	-	-	-	-	-	(75,995)	(75,995)	(75,995)	857	(75,138)
Restated balance at 1 January 2011	675,639	221,808	223,758	(83,472)	82,805	46,296	850,139	1,341,334	2,016,973	190,546	2,207,519
Total comprehensive income for the year											
Profit for the year	-	-	-	-	-	-	205,195	205,195	205,195	17,210	222,405
Foreign currency translation differences	-	-	-	(137,363)	-	-	-	(137,363)	(137,363)	(17,388)	(154,751)
Total comprehensive income for the year	-	-	-	(137,363)	-	-	205,195	67,832	67,832	(178)	67,654
Other equity movements											
Transfer to legal reserve	-	-	31,907	-	-	-	(31,907)	-	-	-	-
Transactions with owners of the Company, recognised directly in equity											
Contributions by and distributions to owners of the Company											
Directors' fees	-	-	-	-	-	-	(3,142)	(3,142)	(3,142)	-	(3,142)
Bonus shares issued (refer note 23)	67,563	-	-	-	-		(67,563)	(67,563)	-	-	-
Capitalization of retained earnings (refer note 23)	-	-	-	-	-	8,869	(8,869)	-	-	-	-
Dividends distributed to non-controlling interest	-	-	-	-	-	-	-	-	-	(18,795)	(18,795)
Adjustments to non-controlling interest	-	-	-	-	-	-	-	-	-	(15,786)	(15,786)
Changes in ownership interests in subsidiaries						-					
Acquisition of non-controlling interest,											
without change in control (refer note 6)	-	-	-	-	-	-	-	-	-	(611)	(611)
Dilution in equity interest upon further issue	-	-	-	-	-	-	-	-	-		
of shares, without loss of control (refer note 6)	-	-	-	-	-	-	-	-	-	436	436
At 31 December 2011	**743,202**	**221,808**	**255,665**	**(220,835)**	**82,805**	**55,165**	**943,853**	**1,338,461**	**2,081,663**	**155,612**	**2,237,275**

The notes on pages 16 to 74 form an integral part of these consolidated financial statements.

In accordance with the Ministry of Economy interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, Directors' fees have been treated as an appropriation from equity.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of cash flows
for the year ended 31 December 2011

	2011 AED'000	2010 AED'000 Restated
Cash flows from operating activities		
Profit for the year	**222,405**	314,176
Adjustments for:		
Share in profit of equity accounted investees	**(156,961)**	(68,021)
Finance cost	**138,116**	154,068
Finance income	**(14,484)**	(13,068)
(Gain)/loss on sale of property, plant and equipment	**(2,174)**	866
Depreciation on property, plant and equipment	**224,531**	287,380
Amortization of intangible assets	**1,238**	2,647
Depreciation on investment properties	**7,657**	5,123
Provision for slow moving and obsolete stock	**19,045**	5,298
Impairment of investment properties	**599**	-
Provision for staff terminal benefits	**20,728**	10,915
Allowance for impairment losses against trade receivables	**89,009**	28,266
Net change in fair value of derivatives	**(12,853)**	(8,135)
Change in fair value of investments at fair value through profit or loss	**90**	-
Loss on sale of investments at fair value through profit or loss	**140**	-
Income tax expense	**1,150**	31,542
Investments in equity accounted investees written off	**1,132**	7,570
Operating profit before working capital changes	**539,368**	758,627
Change in inventories	**(43,809)**	(20,962)
Change in trade and other receivables	**21,745**	122,986
Change in contract work in progress	**(18,208)**	53,530
Change in due from related parties	**(54,510)**	(305,044)
Change in due to related parties	**(109,434)**	13,927
Change in assets held for sale	**6,091**	(668)
Change in trade and other payables	**(170,551)**	59,095
Change in liabilities held for sale	**-**	1,409
Cash generated from operating activities	**170,692**	682,900
Staff terminal benefits paid	**(7,753)**	(5,327)
Income tax paid	**(5,551)**	(12,127)
Net cash from operating activities	**157,388**	665,446

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of cash flows (continued)

for the year ended 31 December 2011

	2011	2010
	AED'000	AED'000
		Restated
Cash flows from investing activities		
Additions to property, plant and equipment	**(132,394)**	(349,370)
Acquisition of subsidiaries, net of cash acquired	**(9,231)**	-
Proceeds from sale of investments at fair value through profit or loss	**80**	-
Proceeds from sale of property, plant and equipment	**40,945**	22,967
Additions to investment properties	**(14,480)**	-
Acquisition of intangible assets	**(2,226)**	(7,520)
Interest received	**14,484**	13,068
Investment made in equity accounted investees	**(62,073)**	(45,393)
Dividends received from equity accounted investees	**33,812**	10,643
Additions to investments at fair value through profit or loss	**(146)**	(309)
Net cash used in investing activities	**(131,229)**	(355,914)
Cash flows from financing activities		
Term loans obtained (net)	**50,487**	20,932
Finance cost paid	**(138,116)**	(154,068)
Directors' fees paid	**(3,142)**	(2,000)
Dividend paid to non-controlling interest	**(18,795)**	(17,040)
Acquisition of non controlling interest	**(175)**	(7,259)
Funds invested by non-controlling interest	**-**	101,897
Net cash used in financing activities	**(109,741)**	(57,538)
Net (decrease) / increase in cash and cash equivalents	**(83,582)**	251,994
Cash and cash equivalents at the beginning of the year	**348,529**	126,241
Effect of exchange rate fluctuations on cash held	**(78,427)**	(29,706)
Cash and cash equivalents at the end of the year	**186,520**	348,529
These comprise the following:		
Cash in hand and at bank	**340,422**	592,829
Bank overdraft	**(153,902)**	(244,300)
	186,520	348,529

The notes on pages 16 to 74 form an integral part of these consolidated financial statements.

The independent auditors' report on is set out on pages 8 and 9.

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 of Ras Al Khaimah Emirate, United Arab Emirates. These consolidated financial statements as at and for the year ended 31 December 2011 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 main activities of the Company are to manufacture and sell variety of ceramic products including tiles, bathroom sets and sanitary wares. The Group is also engaged in contracting and other industrial manufacturing activities.

2 Subsidiaries and jointly controlled entities

	Name of the entity	Country of incorporation	Registered /effective percentage shareholding 2011	2010	Principal activities
A	**Subsidiaries of Ras Al Khaimah Ceramics PSC**				
	RAK Ceramics (Bangladesh) Limited	Bangladesh	**72.59%**	72.59%	Manufacturers of ceramics tiles and sanitary ware
	RAK (Gao Yao) Ceramics Co. Limited	China	**100%**	100%	Manufacturers of ceramics tiles
	Ceramic Ras Al Khaimah Sudanese Investment Company Limited	Sudan	**100%**	100%	Manufacturers of ceramics tiles
	RAK Ceramics PJSC Limited	Iran	**80%**	80%	Manufacturers of ceramics tiles
	RAK Ceramics India Private Limited	India	**90%**	90%	Manufacturers of ceramics tiles and sanitary ware
	Elegance Ceramics LLC	UAE	**100%**	100%	Manufacturers of ceramics tiles
	Prestige Tiles Pty Limited	Australia	**100%**	100%	Trading in ceramics tiles
	RAK Bathware Pty Limited	Australia	**100%**	100%	Trading in sanitary ware
	Acacia Hotels LLC	UAE	**100%**	100%	Owns and operate a Hotel.
	Electro RAK LLC	UAE	**51.04%**	51.04%	Mechanical, electrical and plumbing (MEP) contracting.
	RAK Ceramics Holding LLC	UAE	**100%**	100%	Investment company

2 Subsidiaries and jointly controlled entities (continued)

	Name of entity	Country of incorporation	Registered/effective shareholding 2011	2010	Principal activities
A	**Subsidiaries of Ras Al Khaimah Ceramics PSC (continued)**				
	Al Jazeerah Utility Services LLC (refer note 6)	UAE	**100%**	51%	Provision of utility services
	RAK Ceramics (Al Ain) and RAK Ceramics (Abu Dhabi) (refer note 6)	UAE	**100%**	50%	Trading in Ceramic tiles and sanitary ware
B	**Subsidiaries of RAK Ceramics Bangladesh Limited**				
	RAK Power Private Limited	Bangladesh	**57%**	57%	Power generation for captive consumption
	Rak Pharmaceuticals Private Limited	Bangladesh	**55%**	55%	Manufacturing of pharmaceuticals
	Rak Food and Beverages Private Limited	Bangladesh	**51%**	51%	Manufacturing of food and food products
	Classic Porcelain Private Limited	Bangladesh	**51%**	51%	Manufacturing of porcelain tableware
C	**Subsidiaries of Electro RAK LLC**				
	Encom Trading LLC	UAE	**90%**	90%	Trading in electrical goods
	RAK Industries LLC	UAE	**70%**	70%	Manufacturing and trading of switchgears.
	Emirates Heavy Engineering LLC (see note (i) below)	UAE	**75.5%**	75.5%	Heavy industrial engineering and related fabrication works
	Electro RAK (India) Private Limited	India	**51%**	-	Electrical, plumbing, ducting, air-conditioning works
D	**Subsidiary of Emirates Heavy Engineering LLC**				
	RAK Fabrication LLC (refer note 6)	UAE	**75.5%**	95%	Fabrication contract works
E	**Subsidiaries of RAK Ceramics Holding LLC**				
	RAK Piling LLC	UAE	**76%**	76%	Piling and foundation works
	RAK Watertech LLC	UAE	**90%**	90%	Waste-water treatment works
	Al Hamra Alumnium and Glass Industries LLC	UAE	**75%**	75%	Aluminum and glass works
	RAK Paints LLC	UAE	**100%**	100%	Manufacturers of paints and allied products

2 Subsidiaries and jointly controlled entities (continued)

	Name of entity	Country of incorporation	Registered/effective shareholding 2011	2010	Principal activities
E	**Subsidiaries of RAK Ceramics Holding LLC (continued)**				
	RAK Gypsum and Decorations LLC	UAE	**60%**	75%	Gypsum works
	AAA Contractors LLC	UAE	**100%**	100%	Construction company
	RAK Universal Plastics LLC (see note (iii) below)	UAE	**87.6%**	52%	Manufacturers of pipes
	RAK Logistics LLC	UAE	**99%**	99%	Freight forwarding and logistics service
	Sherewin Holdings Limited	BVI	**100%**	100%	Investment company
	Al Hamra For Travels LLC	UAE	**100%**	100%	Airline ticket booking agents
F	**Subsidiaries of RAK Logistics LLC**				
	RAK Logistics Hong Kong Limited	Hong Kong	**80%**	-	Transport/logistics
	Societe RAK Logistique France Sarl	France	**80%**	-	Transport/logistics
	RAK Logistics UK Limited	UK	**80%**	-	Transport/logistics
	RAK Logistics Guangzhou Limited	China	**100%**	-	Transport/logistics
G	**Subsidiary of RAK Paints LLC**				
	Altek Emirates LLC (see note (ii) below)	UAE	**100%**	100%	Manufacturers of paints and allied products
H	**Joint Ventures of Ras Al Khaimah Ceramics PSC**				
	RAK Ceramics Italy SRL(see notes (iv) and (v) below)	Italy	**60%**	60%	Trading in ceramic tiles and sanitary ware items
	RAK Distribution Europe (see notes (iv) and (v) below)	Italy	**95%**	95%	Trading in ceramic tiles

2 Subsidiaries and jointly controlled entities (continued)

	Name of entity	Country of incorporation	Registered/effective shareholding **2011**	2010	Principal activities
H	**Joint Ventures of Ras Al Khaimah Ceramics PSC (continued)**				
	Elegance Ceramics Italy (see notes (iv) and (v) below)	Italy	**60%**	60%	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	KSA	**50%**	50%	Trading in ceramic tiles and sanitary ware items
	RAK Mineral and Metals Investment FZC	UAE	**50%**	50%	Minerals, metal, coal exploration and processing
	Laticrete RAK LLC (see note (v) below)	UAE	**51%**	51%	Manufacturer of glue/adhesive for fixing the tiles
	RAK Porcelain LLC	UAE	**50%**	50%	Manufacturing of porcelain tableware
	RAK Chimica LLC (see note (v) below)	UAE	**55.55%**	55.55%	Manufacturing of chemicals used in ceramic industries
	Prime Builder Contracting Company LLC (see note (v) below)	UAE	**51%**	51%	Construction of buildings and roads
	Kludi RAK LLC (see note (v) below)	UAE	**51%**	51%	Manufacturing of water tap, faucets etc.
	Al Hamra Construction Company LLC	UAE	**50%**	50%	Construction company
	RAK Warehouse Leasing LLC	UAE	**50%**	50%	Leasing industrial warehouse spaces
	Prime Builders Construction Materials Industries LLC (see note (v) below)	UAE	**51%**	51%	Manufacturers of ready mix and ready blocks
	ARC International Trading Company	KSA	**50%**	50%	Trading in ceramics tile
	RAK Ceramics Holding LLC Georgia (see note (v) below)	Georgia	**51%**	51%	Trading in ceramic tiles and sanitary ware items
	Prestige Land Private Company (see (vi) below)	Iran	**24%**	24%	Real estate development project
	Agora Commerce and Investments FZ-LLC	Congo	**50%**	50%	Investment company

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes *(continued)*

2 Subsidiaries and jointly controlled entities (continued)

	Name of entity	Country of incorporation	Registered/effective shareholding 2011	2010	Principal activities
I	**Associates of RAK Ceramics (Bangladesh) Limited**				
	RAK Securities and Services Private Limited	Bangladesh	**35%**	35%	Providers of security services
	RAK Paints Private Limited	Bangladesh	**40%**	40%	Manufacturers of paints
	RAK Moshfly (BD) Private Limited	Bangladesh	**20%**	20%	Manufacturers of pesticides
	RAK Holdings Private Limited	Bangladesh	**40%**	40%	Investment company
J	**Joint Venture of Prestige Tiles Pty Limited**				
	Massa Imports Pty Limited	Australia	**50%**	50%	Trading in ceramic tiles
K	**Joint Ventures of Rak Ceramics Holding LLC**				
	MEC Coal Pte Limited	Singapore	**50%**	50%	Investment company
	RAK Pharmacy LLC (see note (v) below)	UAE	**51%**	51%	Pharmacy
	Al Hamra Global Investments FZ-LLC	UAE	**100%**	100%	Investment company
L	**Discontinued operations - held for sale**				
	S.A. Setrim	France	**100%**	100%	Trading in ceramic tiles
	SCI Gresivaudan	France	**100%**	100%	Trading in ceramic tiles and sanitary ware
	RAK Ceramics France	France	**100%**	100%	Trading in ceramic tiles and sanitary ware
	SCI DU Golfe	France	**100%**	100%	Warehousing services
	RAK Global Logistics LLC	UAE	**51%**	51%	Logistics
	RAK Composites LLC	UAE	**80%**	80%	Boat manufacturing
	RAK Luminar LLC	UAE	**100%**	51%	Trading in electrical goods

(i) 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. Accordingly, the Group effectively holds 75.5% equity interest of Emirates Heavy Engineering LLC.

2 Subsidiaries and jointly controlled entities (continued)

(ii) 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.

(iii) As at 31 December 2010, the Group held 52% equity interest in RAK Universal Plastics LLC ("RAK Universal") through one of its fully owned subsidiary, RAK Ceramics Holding LLC. During the current year, RAK Ceramics Holding LLC acquired a further 14% equity interest in RAK Universal. In addition to this, RAK Watertech LLC in which the Group holds 90% equity interest also acquired 24% equity interest in RAK Universal. Accordingly, the Group effectively holds 87.6% equity interest of RAK Universal Plastics LLC.

(iv) The Group's investment in RAK Ceramics Italy SRL, RAK Distribution Europe and Elegance Ceramics Italy are held in the name of one of the Director of the Company for the beneficial interest of the Group.

(v) RAK Ceramics Italy SRL, RAK Distribution Europe, Elegance Ceramics Italy, Laticrete RAK LLC, RAK Chimica LLC, Prime Builders Contracting Company LLC, Kludi RAK LLC, Prime Builders Construction Materials Industries LLC, RAK Ceramics Holding LLC Gerogia and RAK Pharmacy 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.

(vi) The Group has entered into a Joint Venture agreement with a related party and certain third parties to set up an entity Prestige Land Private Company for the purpose of developing a real estate project in Iran. The Group has 24% equity interest and joint control along with the other shareholders over the operations and management of this entity. Accordingly the entity has been considered as Joint Venture in these consolidated financial statements.

3 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 modified to include the measurement at fair value of derivative financial instruments assets and liabilities, held for sale and assets carried at fair value through profit or loss. Also refer note 5.

(c) Functional and presentation currency

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

3 Basis of preparation (continued)

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards ("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. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognized 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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 36.

(e) Change in accounting policy

Overview

Effective 1 January 2011, the Group has adopted following revision / amendments in International Financial Reporting Standards (IFRS's):

1. IFRS 3 Business Combinations Revised (2008); and
2. IAS 27 Consolidated and Separate Financial Statements Revised (2008)

Accounting for business combinations

All business combinations occurring on or after 1 January 2011 are accounted for by applying the acquisition method.

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 as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. 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.

3 Basis of preparation (continued)

(e) Change in accounting policy (continued)

Accounting for 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.

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

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

The change in accounting policy is applied prospectively and had no impact on earnings per shares.

4 Significant accounting policies

The accounting policies set out below, which comply with IFRS, have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 3 (e) which addresses changes in accounting policies.

Basis of consolidation

These consolidated financial statements comprise the consolidated 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 2.

Business combinations

The Group changed its accounting policy with respect to accounting for business combinations. Refer note 3(e) for further details.

Subsidiaries

Subsidiaries are enterprises controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The results of operations and total assets and liabilities of subsidiary companies are included in the consolidated financial statements on a line-by-line basis and the interest of minority shareholders, if any, in the results and net assets of subsidiaries is stated separately. The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date that control commences until the date that control ceases. Any gains or losses on increase/decrease in non-controlling interest in subsidiaries without a change in control, is recognised as a component of equity.

Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interest and other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized 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.

4 Significant accounting policies (continued)

Basis of consolidation (continued)

Investments in associates and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Special purpose entities

Special purpose entities (“SPEs”) are consolidated if, based on an evaluation of the substance of the relationship of the SPEs with the Group and the SPEs risk and rewards, the Group concludes that it controls the SPEs.

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.

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 at the reporting date are retranslated to the functional currency at the exchange rate at that 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 retranslated 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 translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for the differences arising on the retranslation 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 recognized 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 (translation reserve) in equity. 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

Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and 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 on a net basis or to realise the asset and settle the liability simultaneously.

The Group's non-derivative financial assets include trade and other receivables, cash in hand and at banks, investments and balances due from related parties.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially 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.

Loans and receivables comprise trade and other receivables and amounts due from related parties.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three month or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of statement of cash flows. Fixed deposits under lien against certain bank facilities are not included as part of cash and cash equivalents.

Financial assets at fair value through profit or loss

A financial asset is classified as fair value through profit or loss if it is held for trading or designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Group manages such investments and make purchase and sale decision on their fair value in accordance with Group's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognized in profit or loss. Financial assets designated as fair value through profit or loss comprises equity securities that otherwise would have been classified as available for sale.

4 Significant accounting policies (continued)

Financial instruments (continued)

Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group's non-derivative financial liabilities include bank borrowings, trade and other payables and balances due to related parties. Such financial liabilities are recognised initially 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, including 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, including hedge accounting (continued)

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognised 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 recognised 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 recognised 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 recognised 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 recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in other comprehensive income is recognised 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.

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

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Capital-work-in-progress and land are not depreciated.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready 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 year 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 2011 (refer note 13).

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.

4 Significant accounting policies (continued)

Intangible assets

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 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.

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives of 5 to15 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 properties

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.

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.

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.

4 Significant accounting policies (continued)

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 (NRV) is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Construction contracts in progress

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 exceeds contract revenue, the excess is included in current liabilities as billings in excess of valuations.

Impairment

Non-derivative financial assets

A financial asset is 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 the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include 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 the borrowers or issuers, economic conditions that correlate with defaults or disappearance of an active market for a security.

The Group considers evidence of impairment of financial assets measured at amortised cost both a specific asset and collective level. All individually significant financial 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. Financial assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

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

4 Significant accounting policies (continued)

Impairment (continued)

Non-derivative financial assets (continued)

An impairment loss in respect of a financial asset measured at amortized 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 recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, 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. An impairment loss is recognized if the carrying amount of an asset or its cash generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. 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 time value of money and risks specific to the asset or CGU. For the purpose of 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.

Goodwill and intangible assets with indefinite life are tested annually for impairment.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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 amortization, if no impairment loss had been recognized.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group’s 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 pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or investment property, which continue to be measured in accordance with the Group’s accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

4 Significant accounting policies (continued)

Assets held for sale (continued)

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

Staff 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

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

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.

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 a 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.

4 Significant accounting policies (continued)

Revenue (continued)

Construction contracts (continued)

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.

Finance income and finance costs

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

Finance cost comprises interest expense on bank borrowings and amounts due to related parties. All borrowing costs are recognized 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 capitalized 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. Capitalization 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.

Taxation

Tax expense comprises current and deferred tax calculated in accordance with the income tax laws applicable to the overseas subsidiaries of the Group. 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 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 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 realization or settlement of the carrying value of assets and liabilities using tax rates enacted or substantially enacted at the reporting date.

4 Significant accounting policies (continued)

Taxation (continued)

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.

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.

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.

Operating leases payments are recognized as an expense in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized 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 recognized in the profit or loss on a systematic basis in the same periods in which the expenses are recognized.

4 Significant accounting policies (continued)

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. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker (CODM) i.e. the Company's Chief Executive Officer (CEO) to make decisions about the resources to be allocated to the segment and to assess its performance and for which discrete financial information is available.

Segment results that are reported to the Company's CEO 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.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are issued but not effective for accounting period starting 1 January 2011, have not been early adopted in preparing these financial statements:

- In October 2010 the IASB issued *Disclosures - Transfers of Financial Assets* (Amendments to IFRS 7) with an effective date of 1 July 2011.
- In October 2010 the IASB issued IFRS 9 *Financial Instruments* (IFRS 9 (2010)) with an effective date of 1 January 2013. IFRS 9 (2010) supersedes the previous version that was issued in November 2009 (IFRS (2009)).
- In December 2010 the IASB issued *Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12* with an effective date of 1 January 2012.
- In May 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangments*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*, which all have an effective date of 1 January 2013.
- In June 2011 the IASB issued *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1 *Presentation of Financial Statements*) with an effective date of 1 July 2012.
- In June 2011 the IASB issued an amended IAS 19 *Employee Benefits*, with an effective date of 1 January 2013.
- The IASB also issued IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) and IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28 (2008). All these standards have an effective date of 1 January 2013.

Management has assessed the impact of the new standards, amendments to standards and interpretations, and concluded that they are either not relevant to the Group or their impact is limited to disclosure and presentation requirements in the financial statements except for IFRS 9 *Financial Instruments*, which become mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not intend to adopt this standard early and the extent of the impact has not been determined.

5 Determination of fair values

Certain of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Derivatives

The fair value of forward exchange contracts and interest rate swaps are obtained from the counterparty banks and financial institutions.

Non-derivative financial liabilities

Fair value is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Investments at fair value through profit or loss

The fair values of investments at fair value through profit or loss are based on their listed market price.

Trade and other receivables / trade and other payables

The fair value of trade and other receivables and trade and other payables approximates to their book values due to the current nature of these instruments. In case trade and other receivables/payables 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.

Investment properties

An external independent valuation company having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio periodically. The fair values are based on market values being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing, wherein the parties had each acted knowledgably.

6 Acquisition of subsidiaries and non-controlling interests

Acquisition of subsidiaries

RAK Ceramics (Al Ain) & RAK Ceramics (Abu Dhabi) (formerly known as Prime Builders Trading Establishment) are branches of Ras Al Khaimah Ceramics PSC. A third party had a beneficial interest to the extent of 50% in these branches which in the current year has been acquired by the Company on 1 April 2011. RAK Ceramics (Al Ain) & RAK Ceramics (Abu Dhabi) are engaged in the trading and distribution of ceramics and sanitary ware products in the city of Al Ain and Abu Dhabi respectively.

Taking control of RAK Ceramics (Al Ain) & RAK Ceramics (Abu Dhabi) will enable the Group to market and distribute its products more effectively in new geographical horizons. It is further expected to provide the Group with an increased share of the standard ceramics market through access to the acquiree's customer base and help in reducing costs through economies of scale.

6 Acquisition of subsidiaries and non-controlling interests (continued)

Acquisition of subsidiaries (continued)

In the period from acquisition of controlling interest in RAK Ceramics (Al Ain) & RAK Ceramics (Abu Dhabi) up to 31 December 2011, the investee contributed revenue of AED 79.69 million and profit of AED 5.30 million to the Group's results. If the acquisition had occurred on 1 January 2011, management estimates that consolidated revenue would have been AED 3,366.52 million, and consolidated profit for the year would have been AED 224.87 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

Furthermore, in the current year, on 1 March 2011, the Company also obtained control of Al Jazeerah Utility Services LLC by acquiring 49 percent of the shares and voting interests in that entity. The Company's holding in this entity is now 100%. Al Jazeerah Utility Services LLC is engaged in the business of providing utility services to Group companies and third parties.

In the period from acquisition of controlling interest in Al Jazeerah Utility Services LLC up to 31 December 2011, the investee contributed revenue of AED 4.46 million and profit of AED 1.24 million to the Group's results. If the acquisition had occurred on 1 January 2011, management estimates that consolidated revenue would have been AED 3,337.56 million, and consolidated profit for the year would have been AED 222.65 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

The following summarizes the recognized amounts of assets acquired and liabilities assumed at the acquisition date and the consideration transferred:

	RAK Ceramics (Al Ain) & RAK Ceramics (Abu Dhabi)	Al Jazeerah Utility Services LLC
	AED'000	AED'000
Property, plant and equipment	619	594
Trade receivables	58,383	2,492
Inventories	28,793	-
Cash and cash equivalents	2,854	743
Trade and other payables	(66,649)	(2,173)
	---------	-------
Total net assets	24,000	1,656
	=====	=====
Net assets attributable to equity shares acquired	12,000	828
	=====	===
Consideration paid in cash	12,000	828
	=====	===

Since fair value of the assets acquired and liabilities assumed at the acquisition date is equal to the sum of the fair value of the Group's previously held equity interest in the acquirees and the consideration transferred, hence no goodwill has arisen as a result of the acquisition.

6 Acquisition of subsidiaries and non-controlling interests (continued)

Equity interest acquired from/disposed to non-controlling interest

On 1 May 2011, the Group acquired an additional 5% equity interest in RAK Fabrication LLC at a book value of AED 24,422 thereby increasing its equity interest in that entity from 95% to 100%. The carrying value of the net assets of RAK Fabrication LLC in the Group's consolidated financial statements on the date of the acquisition was AED 488,446. As a result of this transaction, the Group has recognized a decrease in non-controlling interest of AED 24,422. Subsequently, the Group has transferred its equity interest in this entity to Emirates Heavy Engineering LLC there by reducing its effective equity interest in RAK Fabrication LLC to 75.5%.

During the year, on 2 October 2011, the Group acquired an additional equity interest of 48% in RAK Universal Plastics LLC at a value of AED 500,000 and subsequently sold 10% of equity interest at a value of AED 100,000, thereby increasing its effective ownership from 52% to 87.6%. The carrying value of the net assets of RAK Universal Plastics Limited on the date of the acquisition was AED 1,628,204. The Group recognised a decrease in non-controlling interest of AED 586,153.

During the year, the Group transferred 15% of equity interest in RAK Gypsum and Decoration LLC to a third party for a consideration of AED 75,000, thereby reducing its equity interest in that entity from 75% to 60%.

In addition to above, in October 2010, the Group had also acquired additional 30% equity interest in AAA Contractors LLC and 10% equity interest in RAK Paints LLC, thereby increasing its equity interest in these entities from 70% and 90% respectively to 100%. The consideration was paid partly in cash and partly in form of shares in RAK Piling LLC.

7 Revenue

	2011	2010
	AED'000	AED'000
Sale of goods	**2,835,375**	2,765,561
Rendering of services	**67,117**	52,739
Construction contract revenue	**434,265**	518,422
	------------	------------
	3,336,757	3,336,722
	=======	=======

8 Cost of sales

	2011	2010
	AED'000	AED'000
These include:		
Raw materials consumed	**1,055,241**	974,494
Provision for slow moving and obsolete inventory (refer note 17)	**19,045**	5,298
Provision for write down of inventory to NRV (refer note 17)	**33,560**	29,250
Direct labour	**293,323**	279,003
Power and fuel	**197,640**	185,290
LPG and natural gases	**305,575**	274,785
Depreciation (refer note 13)	**194,659**	256,122
Repairs and maintenance	**327,325**	279,146
Amortization of intangible assets (refer note 14)	**584**	1,965
	======	======

9 Other income

	2011	2010
	AED'000	AED'000
Rental income from investment properties (refer note 15)	**26,103**	10,509
Sale of scrap and miscellaneous items	**16,566**	19,445
Insurance claims	**154**	932
Gain / (loss) on sale of property, plant and equipment	**2,174**	(866)
Tax subsidies (i)	**7,996**	15,769
Other miscellaneous income	**14,850**	4,599
	---------	--------
	67,843	50,388
	=====	=====

(i) This represents sales tax and custom duty subsidies received by a Group entity in India.

10 Administrative and general expenses

	2011	2010
	AED'000	AED'000
		Restated
These include:		
Staff costs	**97,150**	70,007
Depreciation (refer note 13)	**23,948**	27,243
Depreciation on investment properties (refer note 15)	**7,657**	5,123
Telephone, postal and office supplies	**11,417**	11,130
Repairs and maintenance	**10,882**	11,573
Legal and professional fee	**5,523**	7,214
Preoperative expenses written off (refer note 34)	**-**	5,246
Amortization of intangible assets (refer note 14)	**654**	682
Loss on sale of investments at fair value through profit or loss (refer note 22)	**138**	-
Impairment loss on trade receivables (refer note 33)	**89,009**	28,266
Impairment loss on amounts due from related parties (refer note 29)	**17,348**	-
	======	======

11 Selling and distribution expenses

	2011	2010
	AED'000	AED'000
These include:		
Staff costs	**62,171**	45,609
Freight and transportation	**126,515**	121,008
Performance rebates	**81,769**	69,309
Advertisement and promotions	**44,158**	42,830
Travel and entertainment	**7,467**	6,315
Depreciation (refer note 13)	**5,924**	4,015
	=====	=====

12 Finance income and expense

	2011	2010
	AED'000	AED'000
		Restated
Finance income		
Interest on fixed deposits	**9,701**	9,842
Net change in the fair value of derivatives (refer note 28 (iv))	**12,853**	8,135
Interest on amounts due from related parties (refer note 29)	**4,568**	3,226
Net foreign exchange gain	**-**	5,898
Others	**215**	-
	27,337	27,101
Finance expense		
Interest on bank borrowings	**110,131**	128,881
Interest on amounts due to related parties (refer note 29)	**605**	-
Bank charges	**27,380**	25,187
Net foreign exchange loss	**19,074**	-
	157,190	154,068

Interest on certain related party balances is charged/credited at rates ranging from 1.15% p.a. to 7.5% p.a. *(2010: 1.15% p.a. to 7.5% p.a.)*.

Recognised in other comprehensive income

Foreign currency translation differences	**(154,751)**	(107,751)

13 Property, plant and equipment

	Land and building	Plant and equipment	Vehicles	Furniture and fixtures	Office equipment	Road and asphalting	Quarry and land development	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost									
Balance at 1 January 2010	484,785	2,368,534	59,423	18,880	21,669	17,550	129	85,104	3,056,074
Additions	88,637	83,375	5,941	14,410	6,410	358	-	150,239	349,370
Transfer from Capital work in progress	7,346	55,081	785	44	219	-	-	(63,475)	
Transfer to investment property (refer note 15)	-	-	-	-	-	-	-	(750)	(750)
Disposals/write offs	(1,592)	(28,736)	(1,528)	(332)	(426)	-	-	(4,732)	(37,346)
Effect of movement in exchange rates	2,338	(12,478)	(1,325)	312	(15)	(373)	-	(31)	(11,572)
	----------	------------	--------	--------	--------	--------	----	----------	------------
Balance at 31 December 2010	581,514	2,465,776	63,296	33,314	27,857	17,535	129	166,355	3,355,776
	======	=======	=====	=====	=====	=====	===	======	=======
Balance at 1 January 2011	581,514	2,465,776	63,296	33,314	27,857	17,535	129	166,355	3,355,776
Additions	27,831	21,864	2,736	2,365	3,604	15		73,979	132,394
Acquisition through business combination (refer note 6)	-	849	2,274	212	193	-	-	-	3,528
Transfers/reclassifications (refer 15)	-	750	6,289	-	-	-	-	-	7,039
Transfer from property plant and equipment	21,206	42,100	1,702	531	1,247	2,539	-	(69,325)	
Transfer to investment property (refer note 15)	-		-	-	-	-	-	(107,368)	(107,368)
Disposals/writeoffs	(3,309)	(51,867)	(2,275)	(842)	(895)		-	(21,308)	(80,496)
Effect of movement in exchange rates	(20,418)	(86,779)	(992)	(994)	(584)	(6)	-	(1,426)	(111,199)
	----------	------------	--------	--------	---------	--------	-----	---------	------------
Balance at 31 December 2011	**606,824**	**2,392,693**	**73,030**	**34,586**	**31,422**	**20,083**	**129**	**40,907**	**3,199,674**
	======	=======	=====	=====	=====	=====	===	=====	=======

13 Property, plant and equipment (continued)

	Land and building	Plant and equipment	Vehicles	Furniture and fixtures	Office equipment	Road and asphalting	Quarry & land development	Capital work in progress	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Accumulated depreciation									
At 1 January 2010	160,789	1,313,226	35,408	12,112	16,794	10,943	129	-	1,549,401
Charge for the year	37,733	225,878	11,969	4,424	5,499	1,877	-	-	287,380
On disposals	(616)	(11,794)	(709)	(147)	(247)	-	-	-	(13,513)
Effect of movement in exchange rates	(708)	(4,292)	(649)	60	(27)	(160)	-	-	(5,776)
Balance at 31 December 2010	197,198	1,523,018	46,019	16,449	22,019	12,660	129	-	1,817,492
At 1 January 2011	197,198	1,523,018	46,019	16,449	22,019	12,660	129	-	1,817,492
Charge for the year	31,815	174,936	8,793	2,809	4,989	1,189	-	-	224,531
Acquisition through business combinations (refer note 6)		272	1,687	196	160		-	-	2,315
On disposals	(580)	(38,757)	(1,192)	(580)	(616)		-	-	(41,725)
Transfers/reclassifications		248	6,279		9		-	-	6,536
Effect of movement in exchange rates	(4,176)	(38,025)	(811)	(463)	(300)	(292)	-	-	(44,067)
Balance at 31 December 2011	224,257	1,621,692	60,775	18,411	26,261	13,557	129	-	1,965,082
Net book value									
At 1 January 2010	323,996	1,055,308	24,015	6,768	4,875	6,607	-	85,104	1,506,673
At 31 December 2010	384,316	942,758	17,277	16,865	5,838	4,875	-	166,355	1,538,284
At 31 December 2011	**382,567**	**771,001**	**12,255**	**16,175**	**5,161**	**6,526**	**-**	**40,907**	**1,234,592**

13 Property, plant and equipment (continued)

The depreciation charge has been allocated as follows:

	2011	2010
	AED'000	AED'000
Cost of sales (refer note 8)	**194,659**	256,122
Administrative and general expenses (refer note 10)	**23,948**	27,243
Selling and distribution expenses (refer note 11)	**5,924**	4,015
	224,531	287,380

(i) Land and buildings

Certain of the Group's factory buildings and investment properties are constructed on plots of land measuring 46,634,931 sq. ft. which was received from the Government of Ras Al Khaimah under an Emree Decree, free of cost as a Government grant. These plots of land are recorded at nominal value. Also refer note 15.

(ii) Change in estimates

During the year, the management has carried out a review of the useful lives of property, plant and equipment and investment properties and has revised the useful life of plant and equipment from 6.67 years to 15 years, buildings and investment properties from 10 years to 35 years and quarry and road asphalting from 5 years to 10 years of the Company and a Group entity, Elegance Ceramics LLC. The revision in estimated useful life is effective from 1 July 2011 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. Had there been no such change in estimate of useful life, the depreciation charge for property, plant and equipment for the year ended 31 December 2011 would have been higher by AED 49.71 million and for investment properties by AED 6.11 million and the profit for the year would have been lower by AED 55.82 million. The effect of this change on the depreciation expense recognized in cost of sales and administrative expenses, in future years is as follows:

	2012	2013	2014	2015	2016	Later
	(AED in millions)					
(Decrease)/increase in depreciation expense	(89.52)	(48.39)	(41.39)	(31.92)	(13.71)	32.96

(iii) Capital work-in-progress

Capital work in progress mainly includes building structure under construction and heavy equipment and machinery not yet installed. Capital work in progress also includes borrowing cost amounting to AED 1.11 million *(2010: AED 0.11 million)* capitalized for assets under construction in accordance with *IAS 23 "Borrowing Cost"*.

13 Property, plant and equipment (continued)

(iv) Transfer to investment properties

During the current year, the Group has transferred an amount of AED 107.37 million to investment properties. This represents cost a staff accommodation building and commercial building which have been leased out by the Group in the current year to earn rental income. Also refer note 9.

(v) Security

Property, plant and equipment with a net book value of AED 315.24 million and AED 343.2 million as at 31 December 2011 *(2010: AED 346.84 million and AED 366.45 million)* are mortgaged and negatively pledged respectively as security against bank facilities. Also refer note 25.

14 Intangible assets

	2011	2010
	AED'000	AED'000
Balance at 1 January	**7,848**	3,763
Additions during the year	**2,226**	7,520
Amortization during the year	**(1,238)**	(2,647)
Effect of movement in exchange rates	**(904)**	(788)
	7,932	7,848

Intangible asset mainly include amounts incurred by the Group to acquire license to use formulation for pharmaceutical products in Bangladesh. These are amortized over the period for which the licence is acquired. Amortization for the year has been allocated as follows:

	2011	2010
	AED'000	AED'000
Cost of sales (refer note 8)	**584**	1,965
Administrative and general expenses (refer note 10)	**654**	682
	1,238	2,647

15 Investment properties

	2011	2010
	AED'000	AED'000
Cost		
Balance at 1 January	**61,996**	55,931
Additions during the year	**14,480**	-
Transfers from property, plant and equipment (refer note 13)	**107,368**	750
Reclassification to property, plant and equipment (refer note 13)	**(7,039)**	-
Effect of movement in exchange rates	**-**	5,315
	176,805	61,996

15 Investment properties (continued)

	2011	2010
	AED'000	AED'000
Accumulated depreciation		
Balance at 1 January	**21,864**	16,741
Charge for the year (refer note 10)	**7,657**	5,123
Reclassification to property, plant and equipment (refer note 13)	**(6,536)**	-
Provision for impairment	**599**	-
	23,584	21,864
Net book value	**153,221**	40,132
Fair value	**154,619**	80,468

(i) Additions during the year and transfer from property, plant and equipment represent capitalization of staff accommodation building amounting to AED 89.3 million and commercial building amounting to AED 32.55 million.

(ii) The Group has obtained independent valuation report for certain investment properties. The fair value of investment properties as per the report of the independent valuer is AED 147.52 million. In respect of the remaining investment properties the Board of Directors of the relevant Group entity have carried out an internal valuation which amounted to AED 7.1 million as at the reporting date. Based on the fair values of investment properties, the Group has recognized a provision for impairment of AED 0.6 million *(2010: AED Nil)* during the year ended 31 December 2011

(iii) During the year, the Group has transferred certain equipment and vehicles with a net book value of AED 0.5 million from investment property to property plant and equipment.

(iv) During the year ended 31 December 2011, the Group has earned rental income amounting to AED 26.1 million *(2010: AED 10.5 million)* from the investment properties. Also refer note 9.

(v) Also refer notes 13(i)(a) and 13 (ii).

16 Investment in equity accounted investees

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

	2011	2010
	AED'000	AED'000
At 1 January	**523,295**	495,983
Investments made during the year (see (i) below)	**62,073**	45,393
Share in profits during the year	**156,961**	68,021
Disposals during the year (see (ii) below)	**-**	(19,134)
Reclassified as due from related parties (see (iii) below)	**-**	(9,180)
Transferred to investments held for sale (see (viii) below)	**(4,370)**	-
Conversion to subsidiaries (see (iv) below)	**(12,828)**	-
Dividends received during the year	**(33,812)**	(10,643)
Effect of movement in exchange rates	**(4,738)**	(4,746)
Written off during the year (see (vii) below)	**(1,132)**	(7,570)
Others	**(20,388)**	(34,829)
	665,061	523,295

16 Investment in equity accounted investees (continued)

(i) During the year ended 31 December 2011, the Group has made further investment in the following entities:

	2011	2010
	AED'000	AED'000
Prestige Land Private Company	**29,391**	36,160
RAK Paints Private Limited	**5,552**	660
RAK Warehouse Leasing LLC	**21,000**	-
Kludi RAK LLC	**5,890**	-
RAK Holdings Private Limited	**-**	7,332
Other entities	**240**	1,241
	-------	--------
	62,073	45,393
	====	=====

(ii) In the previous year, the Group disposed off its investment in RAK Ceramics India (Trading) Private Limited, RAKAEZ LLC, RAK Steel LLC and Al Hamra Public Relations LLC due to closure of operations of the entities.

(iii) In 2008, the Group contributed advance of AED 9.18 million towards its share of equity in Kludi RAK LLC. This advance was classified as investment in equity accounted investees. In 2010, the Joint Venture partners mutually decided to treat this amount as advance from the Joint Venture partner until the other Joint Venture partner also introduced his share. Accordingly, this amount was reclassified as due from related party during the previous year.

(iv) During the year, the Group derecognised certain equity accounted investments amounting to AED 12.8 million upon acquisition of control in such entities (refer note 6).

(v) The Group has a 50% equity interest in MEC Coal Pte Limited (MEC), a limited liability company incorporated in June 2008 and registered in Singapore. During the year 2008, MEC acquired 50% ownership interest in PT Tekno Orbit (TOP) which is engaged in the business of extraction of coal reserves. The equity interest was later increased to 100% during 2009. TOP holds an exploration mining business license for a coal mine in East Kalimantan in Indonesia for a period of 30 years commencing from October 2008. As per a Joint Ore Reserve Committee (JORC) reserve report compiled by a consultant, this coal mine contains potential reserves of 1,621 million tons. At the acquisition date, the mining asset held by TOP was fair valued using the discounted cash flow model. Based on the above, the fair value of net identifiable assets of TOP was determined and segregated between the initial investment of 50% and the subsequent investment of 50%. The excess of the fair value of net identifiable assets relating to the initial investment over the carrying amount of such investment was recognized in profit or loss whereas the excess of the fair value of net identifiable assets relating to the subsequent investment over the purchase consideration thereof was recognized as goodwill.

Until 31 December 2010, the Group had carried its investment in MEC at cost due to the uncertainty involved over the realisability of the value of the mining asset since the project was considered to be in initial stages. During the years 2010 and 2011, MEC has made significant progress in developing the coal mine and other related infrastructure works in East Kalimantan. The front end engineering design of the project has been completed and the key permits and licences have been acquired and land required for developing the infrastructure has been acquired. Based on the development activity being carried out, the management of MEC expects to commence commercial production from the mine from the year 2014.

16 Investment in equity accounted investees (continued)

On account of the factors outlined above, the Company's Directors are of the opinion that the Group will be able to realize the value of the investment from the cash flows generated from the future operations of MEC once the commercial production commences from 2014. Accordingly, the Group has recognized its share of accumulated profits of MEC from incorporation to 31 December 2011 amounting to AED 72.56 million.

(vi) The Group has short term receivable / payable balances with certain equity accounted investees which have been included within amounts due from and due to related parties under note 29.

(vii) The Group has a 10% investment in Ahmadah RAK International Logistics LLC and 51% investment in RAK Ceramics Benelux Limited. Both these entities have discontinued their operations and the Group has fully written off its investment in these entities amounting to AED 1.13 million. Further, in 2010, the Group had written off /provided its share of investment in RK Group LLC and Acqutech Yachts LLC amounting to AED 7.57 million.

(viii) During the year, the Group has reclassified an investment in RAK Luminar LLC to investments held for sale following a decision by the Group management to dispose of its investment in this entity.

(ix) The Group has not recognised losses of RAK Ceramics UK Limited amounting to AED 2.54 million in 2011, since the Group has no obligation in respect of these losses.

(x) The aggregate amount of income, expenses, assets and liabilities at 31 December 2011 of equity accounted investees of the Group , not adjusted for the percentage ownership held by the Group, is set out below:

	2011 **AED'000**	2010 AED'000
Non-current assets	**2,528,532**	2,593,493
Current assets	**3,083,732**	1,191,981
Current liabilities	**(1,331,867)**	(1,453,957)
Non-current liabilities	**(1,307,497)**	(1,043,741)
Net assets	**2,972,900**	1,287,776
Revenue	**1,527,894**	1,996,233
Profit for the year	**315,273**	128,505

17 Inventories

	31 December 2011 AED'000	31 December 2010 AED'000 Restated	1 January 2010 AED'000 Restated
Finished goods	**557,593**	502,436	503,762
Less: Provision for slow moving and obsolete stock	**(13,403)**	(5,000)	(5,000)
	544,190	497,436	498,762
Raw materials	**331,418**	342,176	339,144
Goods-in-transit	**33,768**	27,597	42,456
Work-in-progress	**15,205**	9,501	-
Stores and spares	**220,180**	203,852	179,239
Provision for slow moving raw materials and stores and spares	**(25,778)**	(15,136)	(9,839)
	1,118,983	1,065,426	1,049,762

During the year ended 31 December 2011, the Group recognised a write-down of finished goods inventory to net realisable value of AED 33.56 million *(2010: AED 29.25 million)*. Refer note 8.

Inventories amounting to AED 177.10 million *(2010: AED 191.80 million)* are subject to a charge in favour of banks against facilities obtained by the Group (refer note 25).

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

	2011 AED'000	2010 AED'000
As at 1 January	**20,136**	14,838
Charge for the year (refer note 8)	**19,045**	5,298
Net assets	**39,181**	20,136

Also refer note 34.

18 Trade and other receivables

	31 December 2011 AED'000	31 December 2010 AED'000 Restated	1 January 2010 AED'000 Restated
Trade receivables	**1,195,200**	1,143,641	1,334,346
Less: Allowance for impairment losses	**(112,907)**	(68,990)	(57,555)
	------------	------------	------------
	1,082,293	1,074,651	1,276,791
Advances	**65,900**	54,112	19,809
Deposits	**7,667**	80,421	67,267
Other receivables	**84,772**	81,327	77,896
	------------	------------	------------
	1,240,632	1,290,511	1,441,763
	=======	=======	=======

Trade receivables amounting to AED 57.70 million *(2010: AED 65.80 million)* are subject to a charge in favour of banks against facilities obtained by the Group (refer note 25).

Also refer note 34.

19 Contract work-in-progress

	2011 AED'000	2010 AED'000
Costs incurred to date	**522,572**	312,790
Add: Estimated attributable profits less recognized losses	**(21,810)**	(28,600)
	---------	----------
	500,762	284,190
Less: Progress billings	**(447,203)**	(248,839)
	---------	----------
Contract work-in-progress	**53,559**	35,351
	=====	======

20 Cash in hand and at banks

	2011	2010
	AED'000	AED'000
Cash in hand	**1,913**	2,865
Cash in transit	**-**	17,686
Cash at bank		
- in fixed deposit accounts	**161,945**	309,979
- in current accounts	**157,447**	245,110
- in margin deposits	**3,303**	13,508
- in call accounts	**15,814**	3,681
	340,422	592,829

Cash in hand and cash at bank includes AED 0.72 million *(2010: AED 0.55 million)* and AED 86.65 million *(2010: AED 91.57 million)* respectively, held outside UAE.

Cash in bank includes fixed deposits amounting to AED 34.15 million *(2010: AED 49.09 million)* which are held by bank under lien against bank facilities availed by the Group.

21 Assets and liabilities held for sale

The Group has a subsidiary involved in boat manufacturing which has been classified as a disposal group held for sale following a commitment by the Group's management to a plan to sell the full manufacturing facility. Efforts to sell the disposal group have commenced, and sale is expected by June 2012.

Assets of AED 13.2 million and liabilities of AED 1.4 million as at the reporting date of the disposal group have been classified as assets held for sale and liabilities held for sale respectively in the consolidated financial statements.

Further, the Group has investments in certain equity accounted investees which are classified as held for sale at the reporting date. These investments have been accounted under equity method till the date of their transfer to held for sale category and amount to AED 29.66 million as at 31 December 2011.

During the current year, the Group has recognized a cumulative amount of AED 2.2 million in respect of impairment against assets classified as held for sale.

22 Investments at fair value through profit or loss

The Group has invested in certain equity securities amounting to AED 0.14 million *(2010: AED 0.31 million)* as at 31 December 2011 which have been classified as investments at fair value through profit or loss. The performance of these equity securities is actively monitored and they are managed on a fair value basis. The fair value adjustment on revaluation of these investments at the reporting date amounting to AED 0.09 million *(2010: AED nil)* has been recognized in profit or loss.

Further, during the year, the Group has sold certain investments with a carrying value of AED 0.22 million at a loss of AED 0.14 million. Also refer note 10.

23 Capital and reserves

	2011	2010
	AED'000	AED'000
(i) Share capital		
Authorised, issued and paid up		
743,202,460 shares of AED 1 each *(31 December 2010: 675,638,600 shares of AED 1 each)*	**743,202**	675,639
	=====	======

The holders of ordinary shares are entitled to receive dividends declared from time to time 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 7 April 2011, 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.

A similar issue of 10% bonus shares was made by the Company during April 2010.

(ii) Share premium reserve

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

Total	**221,808**
	======

In October 1998, the shareholders of the Company, resolved to issue 15 million ordinary shares at an exercise price of AED 11 per share resulting in share premium of AED 165 million.

Furthermore, 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 5.31 million was recognised as a reduction in equity.

(iii) Translation reserve

The translation reserve comprises 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.

(iv) 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 the applicable entities. This reserve is non-distributable except in certain circumstances as mentioned in the above law. The consolidated statutory reserve reflects transfers made post acquisition for subsidiary companies.

(v) Capital reserve

Capital reserve of AED 55.16 million *(2010: AED 46.29 million)* represents the Group's share of retained earnings capitalized by various subsidiaries. The capital reserve is non-distributable.

24 Earnings per share

The calculation of basic earnings per share at 31 December 2011 is based on the profit attributable to ordinary share holders of the Company of AED 205.19 million *(2010: AED 272.25 million)*, and the weighted average number of ordinary shares outstanding of AED 743,202 thousand *(2010: AED 743,202 thousand)*, calculated as follows

	2011	2010
	AED'000	AED'000
		Restated
Net profit attributable to shareholders of the Company (AED'000)	**205,195**	272,254
	======	======
Weighted average number of shares outstanding ('000s)	**743,202**	743,202
	======	=====
Earnings per share (AED)	**0.28**	0.37
	===	===

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.

25 Bank borrowings

	2011	2010
	AED'000	AED'000
Short-term		
Bank overdrafts	**153,902**	244,300
Short-term loans	**361,232**	436,365
Trust receipts	**289,823**	123,220
Current portion of long-term loans	**450,443**	448,203
	------------	------------
	1,255,400	1,252,088
	=======	========
Long-term		
Bank loans	**1,362,187**	1,403,170
Less: Current portion of long-term loans	**(450,443)**	(448,203)
	----------	-----------
	911,744	954,967
	======	======

25 Bank borrowings (continued)

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

Currency	Interest range	2011 AED'000	2010 AED'000
AUD	5.5% - 9%	**26,751**	30,200
BDT	14%	**2,092**	697
AED	4% - 9%	**249,936**	318,811
EUR	2% - 4.7%	**86,226**	124,049
INR	11%	**229**	398
USD	2% - 4.25%	**996,953**	929,015
Total		**1,362,187**	1,403,170

The Group has obtained long term and short term facilities with different 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 pegged. Rate of interest on the above bank loans are based on normal commercial rates. The Group has taken interest rate swaps, currency swaps and forward swaps to hedge its interest rate risk and currency risk (refer note 28). The maturity profile of term loans range from 2011 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) Commercial mortgage / hypothecation over relevant items of property, plant and equipment granted in favour of the bank;
(iv) Mortgage / hypothecation of relevant motor vehicles in favour of the bank;
(v) Promissory note for AED 95 million;
(vi) Assignment of insurance over furniture, fixtures and equipments of certain Group entities in favour of the bank;
(vii) Corporate guarantee of the Company; and
(viii) Hypothecation of inventories and receivable of certain Group entities.

The borrowing arrangements include undertakings to comply with various covenants like consolidated net borrowings to consolidated EBDITA, consolidated EBDITA to consolidated interest payable, debt equity ratio, leverage ratio, total debt to net worth ratio and interest cover including an undertaking to maintain a minimum consolidated net worth.

26 Trade and other payables

	2011	2010
	AED'000	AED'000
Trade payables	**850,003**	897,649
Accrued and other expenses	**169,778**	170,595
Advances from customers	**67,189**	75,797
Provision for commission and rebates	**19,294**	22,104
Other payables	**11,685**	53,533
	1,117,949	1,219,678

27 Staff terminal benefits

	2011	2010
	AED'000	AED'000
Provision as at 1 January	**48,444**	42,852
Charge for the year	**20,728**	10,915
Payments made during the year	**(7,753)**	(5,327)
Effect of movement in exchange rate	**778**	4
	62,197	48,444

28 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**	**Between 1 - 5 years AED'000**
31 December 2011					
Interest rate swaps	30	5,937	486,674	205,288	281,386
Currency swaps	524	584	28,860	10,510	18,350
Forward foreign exchange contracts	-	165	16,515	16,515	-
	554	**6,686**	**532,049**	**232,313**	**299,736**
31 December 2010					
Interest rate swaps	1,384	12,227	849,772	387,564	462,208
Currency swaps	98	8,240	40,704	11,844	28,860
	1,482	20,467	890,476	399,408	491,068

28 Derivative financial instruments (continued)

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 1 year AED'000	Between 1 - 5 years AED'000
31 December 2009					
Interest rate swaps	1,579	19,912	745,720	464,531	281,190
Currency swaps	110	8,897	43,414	2,671	40,742
	-------	--------	----------	----------	----------
	1,689	28,809	789,134	467,202	321,932
	====	=====	======	======	======

(i) The Group has entered into various interest rate swap agreements whereby it has converted the LIBOR/EIBOR floating rate liability into fixed rate liability.

(ii) The Group has entered into cross currency swaps with commercial banks whereby its foreign currency obligations upto USD 7.86 million have been converted into the hedged Indian Rupees (INR) amount.

(iii) A Group entity has entered into a currency exchange rate contract with a commercial bank whereby it has entered into a deal to purchase GBP 4.5 million at a future date.

(iv) The difference between net mark-to-market value of the derivative financial instruments as at 31 December 2011 amounting AED 6.13 million as compared to the value of AED 18.98 million on 31 December 2010 has resulted in a reversal provision of AED 12.85 million *(2010:AED 8.13 million)* which has been recognized in finance income (refer note 12).

29 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 agreed rates. The significant transactions entered into by the Group with related parties are as follows:

Transactions with related parties

	2011 AED'000	2010 AED'000
A) Equity accounted investees		
Sales of goods and services	**163,939**	296,173
Purchase of goods and services	**128,335**	140,766
Interest paid	**605**	-
Interest received	**2,677**	1,947
Rental income	**5,809**	5,128
	=====	======
B) Other related parties		
Sales of goods and services	**69,069**	127,111
Purchase of goods and services	**19,669**	31,802
Interest received	**1,891**	1,279
Rental income	**13,206**	1,971
	=====	======

29 Related parties (continued)

Key management personnel compensation

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

	2011	2010
	AED'000	AED'000
Short-term benefits	**15,501**	20,769
Employer's end of service benefits	**144**	412
	====	===

Due from related parties

	31 December 2011	31 December 2010	1 January 2010
	AED'000	AED'000	AED'000
		Restated	Restated
Equity accounted investees	**562,871**	434,146	275,378
Other related parties	**321,890**	378,757	232,481
Less: Allowance for impairment losses (refer note 10)	**(17,348)**	-	-
	----------	----------	----------
	867,413	812,903	507,859
	======	======	======

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, have confirmed that the existing provision is sufficient to cover any expected impairment losses there against.

Due to related parties

	2011	2010
	AED'000	AED'000
Equity accounted investees	**73,327**	183,008
Others related parties	**247**	-
	---------	----------
	73,574	183,008
	=====	======

30 Income tax

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

	2011 AED'000	2010 AED'000
Current tax		
Current year	**13,791**	27,376
Deferred tax		
Current year	**(16,411)**	(1,817)
Prior years	**3,770**	5,982
	---------	--------
Total deferred tax	**(12,641)**	4,165
	---------	--------
Tax expense for the year	**1,150**	31,542
	=====	=====
Provision for tax	**50,899**	42,659
	=====	=====
Deferred tax liability	**9,033**	23,228
	====	====
Deferred tax asset	**792**	516
	====	====

The Group's consolidated effective tax rate is 0.51% for 2011 *(2010: 9%)*.

31 Contingent liabilities and commitments

	2011 AED'000	2010 AED'000
Letters of guarantee	**119,870**	198,576
Letters of credit	**67,344**	91,897
Capital commitments	**387**	-
VAT and other tax contingencies	**11,799**	5,059
	======	======

In some jurisdictions, the tax returns for certain years have not been reviewed by the tax 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.

32 Operating leases

As lessor:

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

	2011 **AED'000**	2010 AED'000
Less than one year	**13,547**	6,638
Between two and five years	**54,000**	-
More than five years	**185,976**	-
	----------	-------
	253,523	6,638
	======	====

33 Financial instruments

Risk management

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.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Senior Group 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 2011, the Group has a fully owned subsidiary in Iran, Rak Ceramics PJSC Limited ("RAK Iran") which is engaged in the manufacture and sale of ceramic tiles and has net assets amounting to AED 254.66 million *(2010: AED 268.82 million)* as at that date. The Group has a further 24% equity investment amounting to AED 114.79 million *2010: AED 85.41)* in another entity in Iran, Prestige Land Private Company ("Prestige Land") which is involved in real estate development. The project being undertaken by Prestige Land Iran is currently in the development stage and hence this investment has been accounted for in these financial statements at cost.

Due to the political situation in Iran and the recent imposition of stricter financial and trade sanctions and oil embargo, the repatriation of funds through banking channels from Iran has become exceedingly difficult. Furthermore, the Iranian currency has de-valued by 19% against the US Dollar in the period from 1 January 2011 to 21 March 2012.

The Board of Directors of the Company have reviewed the Group's exposure in Iran at the reporting date in light of the current global and political conditions and the factors outlined above and are of the view that the Group will be able to recover the investments in Iran as well as arranging for the repatriation of funds and accordingly are of the view that no allowance for impairment is required to be created in the consolidated financial statements of the Group for the year ended 31 December 2011.

The Group's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, trade and other payables, and balances due to related parties .The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables, investments, bank balance and cash and due from related parties.

The Group also enters into derivative transactions, primarily interest rate swaps, currency swaps and forward currency contracts. The purpose is to manage the interest rate risk and currency risk arising from the Group's operations and its sources of finance. It is, and has been throughout the current year and previous year the Group's policy that no trading in derivatives shall be 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 receivable, due from related parties and balances with bank. The maximum exposure to credit risk is equal to the carrying amount of these instruments.

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:

	2011	2010
	AED'000	AED'000
Trade and other receivables	**1,179,367**	1,239,170
Cash at bank	**338,509**	572,278
Due from related parties	**867,413**	812,903
	------------	------------
	2,385,289	2,624,351
	=======	========

Trade and other receivables

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 26.59% *(2010: 23.36%)* of the outstanding trade receivable as at 31 December 2011. Geographically the credit risk is significantly concentrated in the Middle East and North Africa (MENA) region.

The management has established a credit policy under which each new customer is analysed individually for creditworthiness 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 customer credit risk, customers 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. As a result of the deteriorating economic circumstances in 2010 and 2011, certain purchase limits have been redefined.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade accounts 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.

33 Financial instruments (continued)

Credit risk (continued)

Trade and other receivables (continued)

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

	2011 AED'000	2010 AED'000
Middle East (ME)	**1,080,759**	1,240,052
Euro-zone countries	**311,966**	208,343
Asian countries (Other than ME)	**435,399**	427,074
Other regions	**218,656**	176,604
	2,046,780	2,052,073

	2011 AED'000	2010 AED'000
Trading and manufacturing	**1,715,653**	1,680,606
Contracting	**18,029**	15,201
Other industrial	**285,480**	326,851
Others	**27,618**	29,415
	2,046,780	2,052,073

Impairment losses

At 31 December 2011, trade receivables with a nominal value of AED 112.91 thousand *(2010: AED 68.99 thousand)* were impaired. Movement in the allowance for impairment of trade receivables were as follows:

	2011 AED'000	2010 AED'000
At 1 January	**68,990**	57,555
Charge for the year (refer note 10)	**89,009**	28,266
Amounts written off	**(45,092)**	(16,831)
At 31 December	**112,907**	68,990

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

			Past due but not impaired			
	Total AED'000	Neither past due nor impaired AED'000	<180 days AED'000	180-360 days AED'000	360-720 days AED'000	>720 Days AED'000
2011	**1,949,706**	**583,429**	**655,558**	**302,657**	**310,268**	**97,794**
2010	**1,887,554**	**348,082**	**824,619**	**369,431**	**263,336**	**82,086**

33 Financial instruments (continued)

Impairment losses (continued)

Credit risk (continued)

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 over receivables and the vast majorities are, therefore, unsecured.

Balances with banks

The Group limits its exposure to credit risk by placing balances with banks of good repute. Given the profile of its bankers, management does not expect any counter party to fail to meet its obligations.

Guarantees

The Company has issued bank guarantees for advances obtained by related parties from commercial banks. Guarantees outstanding as at 31 December 2011 amount to AED 120 million *(31 December 2010: AED 199 million)*.

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. The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the policies and guidelines set by the management.

Currency risk

The Group has a natural hedge against currency risk on foreign currency denominated sales and purchases. The Group is however exposed to currency risk on borrowings at component level that are denominated in a currency other than the respective functional currencies of the Group entities, primarily in USD.

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.

Since USD is pegged against the Group’s reporting currency, hence there is no currency risk involved in USD denominated loans taken out by Company. However, USD denominated loans taken out by other Group entities have been partially hedged using currency swap contracts.

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, primarily AED and USD, but also EURO, AUD, BDT and INR. This provides an economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

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.

33 Financial instruments (continued)

Market risk (continued)

Exposure to currency risk

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

	INR	AUD	BDT	IRR	GBP	CHF	RMB	USD	EURO	SDG
31 December 2011	'000									
Trade and other receivables (including due from related parties)	498,986	3,160	493,010	245,875,798	5,809	53	4,758	**6,734**	**57,024**	**88,340**
Cash and bank balances	62,023	564	1,442,260	29,015,554	12,409	179	6,519	**681**	**5,312**	**1,293**
Trade and other payables	(583,294)	(459)	(502,997)	(156,549,404)	(513)	-	(123,250)	**(1,018)**	**(31,729)**	**(9,413)**
Bank loans	(671,206)	(8,786)	(181,554)	-	-	-	-	**(27,739)**	**(27,925)**	**(8)**
Net statement of financial position exposure	**(693,491)**	**(5,521)**	**1,250,719**	**118,341,948**	**17,705**	**232**	**(111,973)**	**(21,342)**	**2,682**	**80,212**
Forward exchange transaction	-	-	-	-	(4,500)	-	-			
Net exposure	**(693,491)**	**(5,521)**	**1,250,719**	**118,341,948**	**13,205**	**232**	**(111,973)**	**(21,342)**	**2,682**	**80,212**
31 December 2010										
Trade and other receivables (including due from related parties)	556,945	3,410	273,954	219,262,728	8,573	46	8,729	11,442	53,122	55,635
Cash and bank balances	21,832	184	1,487,660	2,249,476	16,818	173	1,066	1,284	1,536	1,706
Bank loans	(324,963)	(9,424)	(119,486)	-	(137)	-	(43,046)	(44,182)	(28,285)	-
Trade and other payables	(439,783)	(795)	(466,606)	(99,241,164)	(430)	-	(100,915)	(1,475)	(38,748)	(1,060)
Net statement of financial position exposure	(185,969)	(6,625)	1,175,522	122,271,040	24,824	219	(134,166)	(32,931)	(12,375)	56,281
Forward exchange transaction	-	-	-	-	-	-	-			-
Net exposure	(185,969)	(6,625)	1,175,522	122,271,040	24,824	219	(134,166)	(32,931)	(12,375)	56,281

33 Financial instruments (continued)

Market risk (continued)

Exposure to currency risk (continued)

The following are exchange rates applied during the year:

	Reporting date spot rate		Average rate	
	2011	2010	**2011**	2010
Australian Dollar (AUD)	**3.738**	3.733	**3.811**	3.366
Swiss Franc (CHF)	**3.910**	3.906	**4.175**	3.537
United States Dollar (USD)	**3.675**	3.675	**3.675**	3.675
Euro (EUR)	**4.757**	4.868	**5.128**	4.903
Great Britain Pound (GBP)	**5.678**	5.683	**5.900**	5.669
Indian Rupee (INR)	**0.068**	0.081	**0.079**	0.080
Chainess Yuan (RMB)	**0.578**	0.557	**0.570**	0.543
Sudanese Pound (SDG)	**0.720**	0.680	**0.720**	0.630
Bangladeshi Takka(BDT)	**0.046**	0.053	**0.051**	0.054
Irani Riyal (IRR) *	**3,021**	2,702	**2,857**	2,794

* This represents rate in IRR per unit of functional currency.

Sensitivity analysis

A strengthening (weakening) of the AED, as indicated below, against the AUD, CHF, USD, EUR, GBP, INR, RMB, SDG, BDT and IRR 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 2010.

	Strengthening		**Weakening**	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
	------------------------- AED'000 -------------------------			
31 December 2011				
INR	**91**	**(2,437)**	**(91)**	**2,437**
AUD	**78**	**(1,100)**	**(78)**	**1,100**
BDT	**-**	**2,862**	**-**	**(2,862)**
IRR	**-**	**1,959**	**-**	**(1,959)**
SDG	**-**	**5,571**	**-**	**5,571**
EURO	**638**	**-**	**(638)**	**-**
GBP	**5,026**	**-**	**(5,026)**	**-**
USD	**(3,920)**	**-**	**3,920**	**-**
RMB	**-**	**(3,236)**	**-**	**3,236**
CHF	**45**		**(45)**	

33 Financial instruments (continued)

Sensitivity analysis (continued)

	Strengthening		Weakening	
	Profit or loss	**Equity**	**Profit or loss**	**Equity**
	AED'000			
31 December 2010				
INR	2	(756)	(1)	756
AUD	1	(1,237)	(1)	1,237
BDT	-	3,121	-	(3,121)
IRR	-	2,263	-	(2,263)
GBP	43	-	(43)	-
EURO	(3,012)	-	3,012	-
SDG	7,054	-	(7,054)	-
USD	(37,653)	-	37,653	-
RMB	-	(3,748)	-	3,748
CHF	43	-	(43)	-

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 2011, after taking into account the effect of interest rate swaps, approximately 41% of the Group's term loans are at a fixed rate of interest *(2010: 68%)*.

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

	2011	2010
	AED'000	AED'000
Fixed rate instruments		
Financial assets		
Fixed deposits	**161,945**	309,979
	======	======
Financial liabilities		
Bank borrowings	**74,137**	106,165
	=====	======
Variable rate instruments		
Financial assets		
Due from related parties	**54,145**	61,898
	====	=====
Financial liabilities		
Due to related parties	**60,190**	16,787
Bank borrowings	**2,093,007**	2,100,890
	=======	=======

33 Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

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. This analysis assumes that all other variables remain constant.

	Profit or loss	
	100 bp increase	**100 bp decrease**
31 December 2011	**AED'000**	**AED'000**
Financial assets		
Variable rate instruments	**580**	**(580)**
	===	===
Financial liabilities		
Variable rate instruments	**(20,535)**	**20,535**
Interest rate swaps	**6,763**	**(6,763)**
	====	====
31 December 2010		
Financial assets		
Variable rate instruments	505	(505)
	===	===
Financial liabilities		
Variable rate instruments	(18,188)	18,188
Interest rate swaps	4,145	(4,145)
	====	=====

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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. Accounts 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 contractual maturities of the Group's financial liabilities at the reporting dates:

		------------------- Contractual cash flows ----------------				
	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**
At 31 December 2011						
Non-derivative financial liabilities						
Bank borrowings	**2,167,144**	**2,286,608**	**476,809**	**859,886**	**638,934**	**310,979**
Trade and other payables	**1,050,760**	**1,050,760**	**490,752**	**560,008**	**-**	**-**
Due to related parties	**73,574**	**73,574**	**-**	**73,574**	**-**	**-**
	=======	=======	======	======	======	======
Derivative financial liabilities						
Interest rate swaps	**5,909**	**1,772**	**348**	**417**	**957**	**-**
Cross currency swaps	**60**	**3,113**	**-**	**794**	**1,994**	**375**
Forward foreign exchange contracts	**162**	**-**	**-**	**-**	**-**	**-**
	=====	=====	=====	======	======	====
At 31 December 2010						
Non-derivative financial liabilities						
Bank borrowings	2,207,055	2,341,608	583,694	672,891	533,876	551,147
Trade and other payables	1,143,881	1,143,881	642,346	501,535	-	-
Due to related parties	183,008	183,008	-	183,008	-	-
	=======	=======	======	======	======	======
Derivative financial liabilities						
Interest rate swaps	10,836	9,278	1,192	6,366	764	956
Cross currency swaps	8,150	6,196	-	3,083	794	2,319
	======	======	=====	======	======	=====

Equity risk

The Group is exposed to equity price risk primarily in respect of investments at fair value through profit or loss. For such investments, a ten percent increase in the price of its equity holding at the reporting date would have increased profit or loss by AED 14.5 thousand *(2010:AED 30.9 thousand)*; an equal change in the opposite direction would have decreased profit or loss by AED 14.5 thousand *(2010: AED 30.9 thousand).*

Fair values

Financial instruments comprise financial assets and financial liabilities. The fair value of derivatives is set out in note 28. The fair values of other financial instruments are not materially different from the carrying values.

33 Financial instruments (continued)

Fair values (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined 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).

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**
31 December 2011			
Financial assets			
Equity securities	**145**	**-**	**-**
Financial liabilities			
Derivative financial liabilities	**-**	**(6,132)**	**-**
	145	**(6,132)**	**-**
31 December 2010			
Financial assets			
Equity securities	309	-	-
Financial liabilities			
Derivative financial liabitites	-	(18,985)	-
	309	(18,985)	-

Capital management

The primary objective of the Group's capital management is to ensure a strong capital base in order support its business and maximise shareholder value.

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 is measured at AED 2,237 million as at 31 December 2011 *(2010: AED 2,207 million)*. The debt equity ratio at the reporting date was as follows:

	2011 AED'000	2010 AED'000
Equity	**2,237,275**	2,207,519
Debt	**2,167,144**	2,207,055
Debt equity ratio	**0.97**	1.0

34 Restatement

During the current year, the following material misstatements pertaining to earlier years were identified. Accordingly, prior period results, retained earnings and other related balances have been restated to conform to the requirement of IAS 8 - Accounting policies, Changes in Accounting Estimates and Errors.

Derivative financial instruments

Until the previous year, the Group did not account for the derivative financial instruments in the financial statements at their fair values. During the current year, the management of the Group resolved to restate the comparative figures pertaining to 2010 to measure the derivative financial instruments held by the Group at the reporting date at their fair value in accordance with the requirements of International Accounting Standard (IAS) 39, 'Financial instruments: Recognition and Measurement'.

Effective 1 January 2010, derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, for derivative financial instruments which are not held for trading, and are not designated in a qualifying hedge relationship, all changes in fair value are recognised immediately in profit or loss.

Inventory accruals

During the year, while carrying out a reconciliation of the goods in transit account, the Group management identified certain accruals relating to goods in transit inventory amounting to AED 23.24 million relating to prior years which had inadvertently been reversed to profit or loss during 2007. The management of the Group, based on a detailed reconciliation exercise have concluded that this amount should have been reversed against the corresponding goods in transit account.. Accordingly, the management has resolved to reinstate the goods in transit accrual and have restated the comparative figures accordingly.

Pre-operating expenses

One of the Group entities commenced operations during the end of the year 2009. All operating expenses incurred by the Group entity prior to commencement of operations were treated as an intangible asset and recognized in the statement of financial position. During the current year, the Group management have resolved to restate the comparative figures pertaining to 2010 to write off these expenses in accordance with the requirements of International Accounting Standard (IAS) 38, 'Intangible Assets'.

Dues from related parties

Prior to the year 2010, the Group had entered into an arrangement with a related party to purchase certain plots of land for trading purposes. The arrangement could not materialize and the related party sold these plots to other entities. The Group however, booked its share of profit on these transactions in accordance with the terms of the proposed arrangement. During the year, as part of the balance reconciliation exercise with the related party, this disputed transaction was identified. Accordingly, the management of the Group has resolved to reverse the incorrect recognition of the share of profit and has restated the comparative figures accordingly.

The impact of all of the above restatements has been summarised below:

34 Restatement (continued)

	Retained earnings AED'000	Trade and other payables AED'000	Due from related parties AED'000	Derivative financial instruments AED'000	Other receivables AED'000
At 1 January 2010 (as previously reported)	803,582	1,137,335	535,518	-	77,896
Relating to 2009 and before:					
Inventory adjustment	(23,248)	23,248	-	-	-
Un-reconciled balances with related party written off	(27,659)	-	(27,659)	-	-
Derivative financial instruments	(27,120)	-	-	(27,120)	-
	(78,027)	23,248	(27,659)	(27,120)	-
At 1 January 2010 (restated)	725,555	1,160,583	507,859	(27,120)	77,896
At 31 December 2010					
-as previously reported	926,134	1,196,430	840,562	-	86,573
-impacts of 2009 and before	(78,027)	23,248	(27,659)	(27,210)	-
Pre-operative expenses written off	(5,246)	-	-	-	(5,246)
Change in fair value of derivative financial instruments	8,135	-	-	8,135	-
Total 2010	(75,138)	23,248	(27,659)	8,135	(5,246)
Attributed to non controlling interest	(857)	-	-	-	-
At 31 December 2010 (restated)	**850,139**	**1,219,678**	**812,903**	**(18,985)**	**81,327**

35 Segment reporting

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:

Ceramic products	includes manufacture and sale of ceramic wall and floor tiles, Gres Porcellanato and bath ware products.
Contracting	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, mines and faucets.
Others	other operations include food and beverages, trading, travel, logistics, hotel, real estate and warehousing.

35 Segment reporting (continued)

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 2011						
External revenue	**2,780,600**	**435,621**	**52,320**	**68,216**	**-**	**3,336,757**
Inter segment revenue	**327,760**	**47,478**	**22,126**	**152,048**	**(549,412)**	**-**
Interest revenue	**30,566**	**304**	**2**	**418**	**(3,953)**	**27,337**
Interest expense	**150,112**	**1,276**	**4,847**	**4,908**	**(3,953)**	**157,190**
Depreciation and amortisation	**192,872**	**27,177**	**5,868**	**7,509**	**-**	**233,426**
Reportable segment profit before tax	**182,385**	**15,998**	**90,366**	**27,103**	**(92,297)**	**223,555**
Share of profit of equity accounted investee	**14,622**	**37,982**	**103,009**	**2,160**	**(812)**	**156,961**
Reportable segment assets	**5,760,935**	**749,938**	**388,232**	**501,536**	**(1,675,029)**	**5,725,612**
Equity accounted investees	**827,982**	**211,962**	**278,918**	**226,251**	**(880,052)**	**665,061**
Capital expenditure	**112,914**	**8,553**	**4,012**	**21,395**	**-**	**146,874**
Reportable segment liabilities	**3,742,213**	**449,565**	**94,051**	**212,247**	**(1,009,739)**	**3,488,337**
	=======	=======	=====	======	=======	=======
Year ended 31 December 2010						
External revenue	2,710,202	521,871	31,381	73,268	-	3,336,722
Inter segment revenue	170,134	81,864	24,108	123,875	(399,981)	-
Interest revenue	26,979	1,195	53	93	(1,219)	27,101
Interest expense	144,268	1,519	4,331	5,169	(1,219)	154,068
Depreciation and amortisation	241,081	35,953	5,692	12,424	-	295,150
Reportable segment profit before tax	302,589	57,975	6,623	31,567	(53,036)	345,718
Share of profit of equity accounted investee	18,335	30,237	18,518	931	-	68,021
Reportable segment assets	6,418,133	761,538	120,455	252,631	(1,600,862)	5,951,895
Equity accounted investees	64,679	177,740	181,561	99,315	-	523,295
Capital expenditure	210,210	4,580	11,808	122,772	-	349,370
Reportable segment liabilities	3,762,456	582,812	87,098	189,015	(876,915)	3,744,466
	=======	======	=====	======	=======	=======

35 Segment reporting (continued)

Geographical information

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

	2011	2010
	AED'000	AED'000
Middle East (ME)	**1,697,569**	1,834,922
Euro zone countries	**467,674**	394,161
Asian countries (other than ME)	**673,299**	642,831
Others	**498,215**	464,808
	------------	------------
Total	**3,336,757**	3,336,722
	======	=======

Non-current assets

Middle East (ME)	**1,311,840**	1,244,034
Asian countries (Other than ME)	**603,133**	703,576
Others	**146,624**	162,465
Total	------------	------------
	2,061,598	2,110,075
	=======	========

36 Significant accounting estimates and judgements

The Company 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.

36 Significant accounting estimates and judgements (continued)

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

The Group's management determines the estimated useful lives and related depreciation charge for its property, plant and equipment and investment properties on an annual basis. The Group's management has carried out a review of the residual values and useful lives of property, plant and equipment and investment properties as at the reporting date and certain revision have been made. Refer notes 13 and 15.

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 realizable 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 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, related party 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 recognizes 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 recognized when they meet the criteria for recognition set out in IFRS 3.

Provision for tax

The Group reviews the provision for tax on a regular basis. In determining the provision for tax, laws of particular jurisdictions (where applicable entity is registered) are taken into account. The management considers the provision for tax to be a reasonable estimate of potential tax liability after considering the applicable laws and past experience.

37 Comparative figures

Certain comparative figures have been regrouped/reclassified where necessary to conform to the presentation adopted in these consolidated financial statements. Also refer note 34.