

**Ras Al Khaimah Ceramics PSC
and its subsidiaries**

Consolidated financial statements
31 December 2012

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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, 2012. 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. During the year, the company reached milestones of supplying 1 billion SQM tiles and 50 million pieces of sanitary wares since its inception. The company also successfully implemented the SAP system at its UAE manufacturing facility.

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 223.1 million while the revenues decreased by AED 168.7 million. The Gross profit of the company improved during the year from 23.5% to 27.0%. The Company's key financial and operational indicators in 2012 reflect its achievements and reiterate its continued commitment to stable & sustainable growth.

Group Performance Highlights

Particulars	Unit	2012	2011	Change
Net Revenue	AED Mio	3,168.1	3,336.8	(5.1%)
GP Margin	%	27.0%	23.5%	350 bps
Net profit to owners	AED Mio	223.1	205.2	8.7%
Total Assets	AED Mio	5,312.0	5,725.6	(7.2%)
Share Capital	AED Mio	743.0	743.0	0.0
Shareholders' Equity	AED Mio	2,110.1	2,081.7	1.4%
Gross Debt	AED Mio	1,968.4	2,167.1	(198.7)
Earnings per share	AED	0.30	0.28	7.1%
Non-current assets to sales	Times	0.60	0.62	(0.02)
Debt/equity Ratio	Times	0.93	1.04	(10.6%)

Results Analysis

The 2012 results were achieved by the Company in the above strategic context focusing on quality of earnings. In 2012, the company leveraged its export relationships in over 150 countries 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 2012 decreased marginally as compared to 2011 and stood at 3.1 billion. The decrease in revenue has been witnessed in contracting revenue (AED 193.2 Mio, -44%) and ceramic segment (AED 22 Mio, -0.8%). This decrease has been set off by the increase in industrial segment (AED 22.5 Mio, +43%) and other segment (AED 24.8 Mio, +36%).
- As compared to last year Consolidated **Gross Profit** increased by 9.4% to reach AED 856.9 million as against AED 783.6 million reached in 2011.
- The **Administrative, selling and financial expenses** for the year increased by 8% to reach AED 873.6 million as compared to AED 812.2 million in previous year. Administrative expenses increased due to proactive provision & impairment policy for inventory, receivables, selling expenses increased in line with volume towards rebates & freight expenses. However finance cost declined by AED 45 million due to effective liquidity management.
- The Consolidated **Net Profit to owners** increased by 8.7% to reach AED 223.1 million as against AED 205.2 million in 2011.
- The consolidated **Non-Current Assets** decreased by 7.7% to reach 1.90 billion from 2.06 billion in 2011 whereas the consolidated **Current Assets** decreased by 6.9% to reach AED 3.41 billion.
- The consolidated **Long Term liabilities** decreased by 47.92% to reach AED 511.9 million as against AED 983.0 million in 2011 whereas the consolidated **Current Liabilities** increased by 1.5% to reach AED 2.54 billion and the **Gross debt** remains to acceptable level as a result of 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. Hamad Abdullah Al Muttawa
4. Dr. Mohammad Abdul Latif
5. Khaled Abdullah Yousef

Corporate Social Responsibility:

A. ENVIRONMENT:

- **Can Collection Day (23rd February & 8th May 2012):** Employees collected 3,000 aluminum cans from within the Company campus in the organized by the Emirates Environmental Group (EEG).
- **Emirates Road Clean-up Campaign (23rd February 2012):** 150 employees participated in Emirates Road Clean-Up Campaign organized by RAK Environment Protection and Development Authority.
- **RAK Terry Fox Run (2nd March 2012):** More than 100 employees participated in RAK Ceramics co-sponsored RAK Terry Fox Run for raising money for cancer research projects.
- **Earth Hour (31st March 2012):** Company observed Earth Hour by switching off the lights from 8:30 to 9:30 pm in order to spread environmental awareness.
- **Earth Day (22nd April 2012):** A tree planting ceremony was organized at manufacturing facility where around 500 trees were planted. 7,000 trees were planted across manufacturing vicinity by the end of year 2012.
- **World Environment Day (5th June 2012):** The Company marked World Environment Day by pledging to collect waste for re-cycling, to further its commitment towards environment protection and sustainability.
- **EPDA Lecture (30th August 2012):** RAK Ceramics along with RAK Environment Protection and Development Authority (EPDA-RAK) hosted a lecture on the importance of tree plantation and its effects on the environment to create awareness on environment sustainability.
- **Arab Environmental Day (14th October 2012):** Company organized a clean-up campaign in cooperation with the Environment Protection Development Authority (EPDA) to commemorate Arab Environmental Day.

- **UAE Clean-up Campaign (12th December 2012):** Employees volunteered to clean-up a section of Al Jazera Al Hamra Beach during the 11th edition of UAE Clean-up UAE campaign 2012, a clean-up drive organized by the Emirates Environmental Group.

B. SOCIETY

- **Sailing Arabia The Tour Sponsorship (12th-27th February 2012):** RAK Ceramics co-sponsored of the Sailing Arabia-The Tour Event 2012, where the Ras Al Khaimah Sail Team (Royal Yacht Club) represented UAE.
- **Educational Tours (March 2012):** Company organized educational tours for students of University of Maryland- USA and George Town University- USA to visit its factory and showroom. The budding international business management students understood about our strategic growth as a strong global brand and the finer points about tile manufacturing, tile designing and application.
- **Made in UAE Event (29th -30th April 2012):** Company participated in 'Made in UAE' event organised by University of Sharjah targeting high quality products manufactured by UAE-based companies. Eco-friendly tiles range was featured recommending eco-friendly products.
- **RAK Bowling Ramadan Tournament Sponsorship (July-August 2012):** Company sponsored RAK Immigration Department's Ramadan Bowling Tournament during the holy month of Ramadan.
- **IPHS Fest Sponsorship (16th-26th October 2012):** Company sponsored an educational initiative 'IPHS Fest', organized by Indian Public High School in Ras Al Khaimah.
- **RAK Ceramics support to UAE Deaf Voice Association (November 2012):** RAK Ceramics supported UAE Deaf Association that serves the interest and welfare of the nation's deaf population. The group aims to empower the deaf by providing vocational training so that they may be able to earn a livelihood independently. The organization published a 'Deaf Voice Book' to increase awareness, with RAK Ceramics acting as a contributor to the book.
- **UAE National Day Celebration (2nd December 2012):** To celebrate UAE's 41st National Day, RAK Ceramics office building lit up with red, black, white and green colour lights featuring the colours of UAE National Flag. The building, office interiors and corporate showroom were decorated with flags, lights and balloons to show commitment towards society and the nation.

C. EMPLOYEE HEALTH & SAFETY

- **Diabetes Seminar (17th April 2012):** Seminar on controlling Diabetes (Diabetes and Obesity) in association with RAK Hospital was hosted for the employees. The seminar aimed at raising the level of awareness about the risks associated with diabetes.
- **Ramadan Iftar (20th July-20th August 2012):** During the holy month of Ramadan, iftar meals were provided to over 1,500 Muslim factory employees. Company also hosted a special Iftar dinner for its more than 6,000 factory employees bringing all Muslim and non-Muslim employees to celebrate the month of peace, brotherhood and spirituality. Senior management team joined the factory workers during the Iftar to reinforce the spirit of Ramadan of equality and brotherhood.
- **Ramadan Football team Sponsorship (25th August 2012):** RAK Ceramics sponsored its team's participation in the Ramadan Football Tournament which took place in Ras Al Khaimah under the patronage of His Highness Sheikh Mohammed Bin Saud Bin Saqr Al Qassimi, Crown Prince of Ras Al Khaimah. The sponsorship was to encourage its employees to engage in physical activity, especially during the holy month of Ramadan.
- **New Labor Canteen Inauguration (7th November 2012):** As a part of ongoing employee welfare program, RAK Ceramics opened a new food canteen for the factory employees that would allow better environment for employees to enjoy their meals during work hours.

D. AWARDS AND CERTIFICATIONS:

- **Best Free Zone Star Award (11th April 2012):** RAK Ceramics received the "Best Free Zone Star" in the Smart Pay Employer Awards 2011 by UAE Exchange, one of UAE's leading money exchange houses. RAK Ceramics was honoured under Free Zone category of companies by UAE Exchange for ensuring convenient, secure and timely salary pick up facility for RAK Ceramics' employees under their Smart Pay Programme.
- **EPDA Certification (26th April 2012):** RAK Ceramics received a certification from Environment Protection and Development Authority (EPDA-RAK) for its outstanding performance in complying with the environmental regulations and requirements.
- **Waste Management Certification (5th June 2012):** RAK Ceramics received the certificate of appreciation from Emirates Environmental Group for actively participating in the Can Collection Campaign 2011-2012. RAK Ceramics was amongst the top ten companies that participated in the Can Collection Campaign.
- **Superbrand Award 2012 (12th June 2012):** RAK Ceramics has been conferred with Superbrand title for 4th consecutive year in a row organized by the Superbrand Council.

- **Corporate Communication Awards 2012 (July 2012):** RAK Ceramics won the Best Corporate Communication Award at 3rd CMO Asia Awards for Excellence in Branding and Marketing organised by US-based CMO Council in Singapore.
- **Certification from RAK Immigration and Labour Department (8th August 2012):** RAK Ceramics received a certification of appreciation from RAK Immigration and Labour Dept for compliance with labour and immigration laws and despite having employees of over 6000; RAK Ceramics has not paid any fines for any irregularities.
- **Most Innovative Company 2012 (September 2012):** RAK Ceramics got the Quality Excellence Award for the “Most Innovative Company” at the recently held Asian Quality Leadership Awards 2012 in Dubai. The award shows its commitment to consumers by offering innovative solutions.
- **Brand Excellence Award’ 2012 (23rd November 2012):** RAK Ceramics received the award in the Durables category at the World Brand Congress for exhibiting brand leadership and perpetual innovation offering consumers with quality products during the last year.

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 company expects to enhance its revenues and profits further to the level achieved in 2012. These expectations are not stated to be revenue or profit guidance due to continued unpredictability and uncertainty in the global construction and financial markets. The company also has plans to expand the coverage of SAP system at other group entities in future.

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. The Company has maintained proper books of accounts.
2. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

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

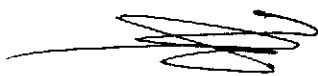
The Board of Directors and management of the company are committed to be compliant with Emirates Securities and commodities Authority announced Corporate Governance program. The Company has maintained compliance well within the framework implemented by ESCA:

1. Following Steps were taken in 2012:

- (1) **Meetings of the Board-** The members of the Board met on six occasions during the year 2012
- (2) **Meetings of the Audit Committee of the Board-**The Audit Committee meetings took place on four occasions during the year 2012.
- (3) **Meeting of Remuneration Committee of the Board of Director-** The Remuneration Committee meeting took place on one occasion during the year 2012.
- (4) **Election of Board of Directors-** The current Board of Director was elected in General Assembly Meeting held on 28 May 2012.

Vote of Thanks

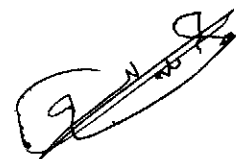
The Board would like to take this opportunity to thanks government bodies, the shareholders, investors, bankers & employees for their continuous commitment, co-operation, confidence & continuous support in achieving company's objectives. Thanks!



Chairman



CEO



Member



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Independent auditors' report

The Shareholders
Ras Al Khaimah Ceramics PSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Ras Al Khaimah Ceramics PSC ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income (comprising a separate consolidated income statement and a consolidated statement 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 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law No. 8 of 1984 (as amended) and the Articles of Association of the Company; that proper financial records have been kept by the Company; a physical count of inventories was carried out by the management in accordance with established principles; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2012, which may have had a material adverse effect on the business of the Company or its financial position.

Vijendranath Malhotra
(Registration No. 48B)

Date: 28 MAR 2013
Dubai, United Arab Emirates

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated income statement

for the year ended 31 December 2012

	<i>Note</i>	2012 AED'000	2011 AED'000
Revenue	7	3,168,134	3,336,757
Cost of sales	8	(2,311,256)	(2,553,166)
Gross profit		856,878	783,591
Administrative and general expenses	9	(340,486)	(318,775)
Selling and distribution expenses	10	(378,346)	(336,212)
Other income	11	58,981	67,843
Results from operating activities		197,027	196,447
Finance expense	12	(154,727)	(157,190)
Finance income	12	23,826	27,337
Share in profit of equity accounted investees	16	24,695	156,961
Profit on disposal of equity accounted investees	16(ii)(b)	134,118	-
Profit on fair valuation for equity accounted investees	16(ii)(c)	21,200	-
Profit before tax		246,139	223,555
Tax expense	30	(22,138)	(1,150)
Profit for the year		224,001	222,405
<i>Profit attributable to:</i>			
Owners of the Company		223,081	205,195
Non-controlling interests		920	17,210
		224,001	222,405
Basic and diluted earnings per share (AED)	24	0.30	0.28

The notes on pages 16 to 80 are an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 8.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	2012 AED'000	2011 AED'000
Profit for the year	224,001	222,405
<i>Other comprehensive income</i>		
Foreign currency translation differences	(228,572)	(154,751)
Total comprehensive income for the year	(4,571)	67,654
<i>Total comprehensive income attributable to:</i>		
Owners of the Company	24,953	67,832
Non-controlling interests	(29,524)	(178)
Total comprehensive income for the year	(4,571)	67,654

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of financial position

as at 31 December 2012

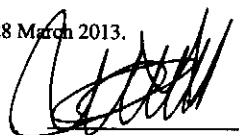
	Note	2012 AED'000	2011 AED'000
Assets			
Non-current assets			
Property, plant and equipment	13	1,039,267	1,234,592
Goodwill	6	50,356	-
Intangible assets	14	7,077	7,932
Investment properties	15	230,629	153,221
Investments in equity accounted investees	16	345,500	665,061
Long term receivable from related parties	29	226,749	-
Deferred tax assets	30	2,609	792
		<u>1,902,187</u>	<u>2,061,598</u>
Current assets			
Inventories	17	1,034,814	1,118,983
Trade and other receivables	18	1,098,599	1,240,632
Contract work-in-progress	19	48,175	53,559
Due from related parties	29	691,576	867,413
Investments at fair value through profit or loss	22	101	145
Cash in hand and at bank	20	494,656	340,422
Assets held for sale	21	41,889	42,860
		<u>3,409,810</u>	<u>3,664,014</u>
Total assets		<u><u>5,311,997</u></u>	<u><u>5,725,612</u></u>
Equity and liabilities			
Equity			
Share capital	23	743,202	743,202
Reserves	23	1,366,945	1,338,461
Equity attributable to owners of the Company		<u>2,110,147</u>	<u>2,081,663</u>
Non-controlling interests		147,818	155,612
Total equity		<u>2,257,965</u>	<u>2,237,275</u>
Non-current liabilities			
Long-term bank borrowings	25	437,026	911,744
Staff terminal benefits	27	66,093	62,197
Deferred tax liabilities	30	8,819	9,033
		<u>511,938</u>	<u>982,974</u>
Current liabilities			
Short-term bank borrowings	25	1,531,364	1,255,400
Trade and other payables	26	814,264	1,117,949
Billings in excess of valuation	19	2,347	-
Provision for taxation	30	68,169	50,899
Due to related parties	29	120,531	73,574
Derivative financial instruments	28	3,962	6,132
Liabilities held for sale	21	1,457	1,409
		<u>2,542,094</u>	<u>2,505,363</u>
Total liabilities		<u>3,054,032</u>	<u>3,488,337</u>
Total equity and liabilities		<u><u>5,311,997</u></u>	<u><u>5,725,612</u></u>

The notes on pages 16 to 80 are an integral part of these consolidated financial statements.

The consolidated financial statements were authorised for issue on behalf of the Board of Directors on 28 March 2013.


Chairman


Director


Chief Executive Officer

The independent auditors' report is set out on page 8.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of cash flows

for the year ended 31 December 2012

	2012 AED'000	2011 AED'000
Cash flows from operating activities		
Profit for the year before tax	246,139	223,555
<i>Adjustments for:</i>		
Share in profit of equity accounted investees	(24,695)	(156,961)
Gain on disposal of equity accounted investees	(134,118)	..
Gain on fair valuation of equity accounted investee	(21,200)	-
Finance cost	119,506	138,116
Finance income	(21,656)	(14,484)
Gain on sale of property, plant and equipment	(1,394)	(2,174)
Depreciation on property, plant and equipment	132,862	224,531
Amortisation of intangible assets	2,977	1,238
Depreciation on investment property	7,184	7,657
Provision for slow moving and obsolete stock	17,524	19,045
Provision for employees' end-of-service benefits	14,599	20,728
Impairment loss on trade receivables	73,716	89,009
Impairment loss on related party receivables	51,295	17,348
Impairment loss on investment property	-	599
Loss on sale of investments at fair value through profit or loss	-	140
Investment in equity accounted investees written off	-	1,132
	-----	-----
	462,739	569,479
Change in:		
- inventories (including work in progress)	82,781	(62,017)
- trade and other receivables	106,768	21,745
- due from related parties (including long term)	142,512	(71,858)
- Investment at fair value through profit or loss	44	90
- deferred tax assets	488	-
- due to related parties	7,318	(109,434)
- assets held for sale	971	6,091
- trade and other payables (including billings in excess of valuation)	(323,368)	(170,551)
- derivative financial instruments	(2,170)	(12,853)
- deferred tax liabilities	(408)	-
- liabilities held for sale	48	-
Staff terminal benefits paid	(12,862)	(7,753)
Income tax paid	(4,868)	(5,551)
Currency translation adjustment	(100,364)	(78,427)
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Net cash from operating activities	359,629	78,961
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Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of cash flows (continued) for the year ended 31 December 2012

	2012 AED'000	2011 AED'000
Investing activities		
Acquisition of property, plant and equipment	(108,842)	(132,394)
Acquisition of subsidiaries, net of cash acquired	-	(9,231)
Proceeds from sale of equity accounted investees	170,000	-
Cash acquired as part of acquisition of subsidiary	10,333	-
Proceeds from sale of investments at fair value through profit or loss	-	80
Proceeds from disposal of property, plant and equipment	2,529	40,945
Additions to investment property	-	(14,480)
Acquisition of intangible assets	(2,367)	(2,226)
Finance income received	21,656	14,484
Investment made in equity accounted investees	(15,750)	(62,073)
Dividend received from equity accounted investees	19,575	33,812
Addition to investments at fair value through profit or loss	-	(146)
Net cash from / (used in) investing activities	97,134	(131,229)
Financing activities		
Long term bank loans availed	299,268	560,179
Long term bank loans repaid	(513,819)	(601,162)
Change in bank deposits	(59,910)	14,940
Net movement in short term bank borrowings (net)	57,119	91,470
Finance cost paid	(119,506)	(138,116)
Dividend paid to non-controlling interests	(5,602)	(18,795)
Remuneration paid to the Board of Directors	(400)	(3,142)
Funds invested by non-controlling interests	22,500	-
Dilution/(acquisition) of non-controlling interests	241	(175)
Net cash used in financing activities	(320,109)	(94,801)
Net increase/(decrease) in cash and cash equivalents	136,654	(147,069)
Cash and cash equivalents at the beginning of the year	152,370	299,439
Cash and cash equivalents at the end of the year	289,024	152,370
These comprise the following:		
Cash in hand and at bank (net of bank deposits on lien)	400,596	306,272
Bank overdraft	(111,572)	(153,902)
	289,024	152,370

The notes on pages 16 to 80 are an integral part of these consolidated financial statements.

The independent auditors' report on is set out on page 8.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of changes in equity for the year ended 31 December 2012

	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 reserves AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2011	675,639	221,808	223,758	(83,472)	82,805	46,296	850,139	1,341,334	190,546	2,207,519
<i>Total comprehensive income for the year:</i>										
Profit for the year	-	-	-	-	-	-	205,195	205,195	17,210	222,405
Foreign currency translation differences	-	-	-	(137,363)	-	-	-	(137,363)	(17,388)	(154,751)
Total comprehensive income for the year:										
Other equity movements										
Transfer to legal reserve	-	-	31,907	-	-	-	(31,907)	-	-	-
Transactions with owners of the Company, recognised directly in equity										
<i>Contributions by and distributions to owners of the Company</i>										
Directors' fees	-	-	-	-	-	-	(3,142)	(3,142)	-	(3,142)
Bonus shares issued (refer note 23)	67,563	-	-	-	-	-	(67,563)	(67,563)	-	-
Capitalisation of retained earnings (refer note 23)	-	-	-	-	-	8,869	(8,869)	-	-	-
Dividends distributed to non-controlling interests	-	-	-	-	-	-	-	-	(18,795)	(18,795)
Adjustments to non-controlling interests	-	-	-	-	-	-	-	-	(15,786)	(15,786)
Changes in ownership interests in subsidiaries										
Acquisition of non-controlling interests, 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	155,612	2,237,275

-----Attributable to equity holders of the Company-----

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes to the consolidated financial statements

for the year ended 31 December 2012

1 Reporting entity

Ras Al Khaimah Ceramics PSC ("the Company" or "the Holding Company") was incorporated under Emiri Decree No. 6/89 dated 26 March 1989 as a limited liability company in the Emirate of Ras Al Khaimah, UAE. Subsequently, under Emiri Decree No. 9/91 dated 6 July 1991, the legal status of the Company was changed to Public Shareholding Company. The registered address of the Company is P.O. Box 4714, Al Jazeerah Al Hamra City, Ras Al Khaimah, United Arab Emirates. The Company is listed on Abu Dhabi stock exchange, UAE. These consolidated financial statements as at and for the year ended 31 December 2012 comprises the Company and its subsidiaries (collectively referred to as "the Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group's subsidiaries and equity accounted investees, their principal activities and the Group's interest have been disclosed in note 2 to these consolidated financial statements.

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

2 Subsidiaries and equity accounted investees entities

A Subsidiaries of Ras Al Khaimah Ceramics PSC

Name of the entity	Country of incorporation	Ownership interest		Principal activities
		2012	2011	
RAK Ceramics (Bangladesh) Limited (refer note (i) below)	Bangladesh	72.41%	72.59%	Manufacturers of ceramic tiles and sanitary ware
RAK (Gao Yao) Ceramics Co. Limited	China	100%	100%	Manufacturers of ceramic tiles
Ceramic Ras Al Khaimah Sudanese Investment Company Limited	Sudan	100%	100%	Manufacturers of ceramic tiles
RAK Ceramics PJSC Limited	Iran	80%	80%	Manufacturers of ceramic tiles
RAK Ceramics India Private Limited	India	90%	90%	Manufacturers of ceramic tiles and sanitary ware
Elegance Ceramics LLC	UAE	100%	100%	Manufacturers of ceramic tiles
Prestige Tiles Pty Limited	Australia	95%	95%	Trading in ceramic tiles
RAK Bathware Pty Limited	Australia	100%	100%	Trading in sanitary ware
Acacia Hotels LLC	UAE	100%	100%	Lease of investment property
Electro RAK LLC	UAE	51.04%	51.04%	Mechanical, electrical and plumbing (MEP) contracting
RAK Ceramics Holding LLC	UAE	100%	100%	Investment company

Ras Al Khaimah Ceramics PSC and its subsidiaries

Consolidated statement of changes in equity (continued) for the year ended 31 December 2012

	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 reserves AED'000	Total equity AED'000	Non- controlling interests AED'000	Total equity AED'000
Balance at 1 January 2012	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
<i>Total comprehensive income for the year:</i>											
Profit for the year	-	-	-	-	-	-	223,081	223,081	223,081	920	224,001
Foreign currency translation differences	-	-	-	(198,128)	-	-	-	(198,128)	(198,128)	(30,444)	(228,572)
Total comprehensive income for the year							223,081	223,081	223,081	920	224,001
Other equity movements											
Transfer to legal reserve	-	-	32,318	-	-	-	(33,724)	(1,406)	(1,406)	1,406	-
Others	-	-	-	(198,128)	-	-	4,168	4,168	4,168	2,993	7,161
Transactions with owners of the Company, recognised directly in equity											
Contributions by and distributions to owners of the Company											
Directors' fees	-	-	-	-	-	-	(400)	(400)	(400)	-	(400)
Dividends distributed to non-controlling interests	-	-	-	-	-	-	-	-	-	(5,602)	(5,602)
Changes in ownership interests in subsidiaries											
Funds invested by non-controlling interests	-	-	-	-	-	-	-	-	-	22,500	22,500
Dilution in equity interest, without loss of control (refer note 2(i))	-	(141)	-	70	-	(121)	1,361	1,169	1,169	433	1,602
At 31 December 2012	743,202	221,667	287,983	(418,893)	82,805	55,044	1,138,339	1,366,945	2,110,147	147,818	2,257,965

-----Attributable to equity holders of the Company-----

The notes on pages 16 to 80 are an integral part of these consolidated financial statements.

In accordance with the Ministry of Economy interpretation of Article 118 of the UAE Federal Law No. 8 of 1984 (as amended), Directors' fees have been treated as an appropriation from equity.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

2 Subsidiaries and equity accounted investees entities (continued)

Name of entity	Country of incorporation	Ownership interest		Principal activities
		2012	2011	
A Subsidiaries of Ras Al Khaimah Ceramics PSC (continued)				
Al Jazeerah Utility Services LLC	UAE	100%	100%	Provision of utility services
RAK Ceramics (Al Ain) and RAK Ceramics (Abu Dhabi) Ceramin FZC LLC (refer note 6)	UAE	100%	100%	Trading in ceramic tiles and sanitary ware
	UAE	100%	-	Manufacturing, processing, import & export of industrial minerals
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 (refer note (ii) below)	UAE	97%	97%	Manufacturing and trading of switchgears.
Emirates Heavy Engineering LLC (refer note (iii) below)	UAE	50%	50%	Heavy industrial engineering and related fabrication works
Electro RAK (India) Private Limited	India	51%	51%	Electrical, plumbing, ducting, air-conditioning works
D Subsidiary of Emirates Heavy Engineering LLC				
RAK Fabrication LLC (refer note (iv) below)	UAE	100%	100%	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 Aluminium and Glass Industries LLC	UAE	75%	75%	Aluminum and glass works
RAK Paints LLC	UAE	100%	100%	Manufacturers of paints and allied products

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

2 Subsidiaries and equity accounted investees entities (continued)

	Name of entity	Country of incorporation	Ownership interest		Principal activities
			2012	2011	
E	Subsidiaries of RAK Ceramics Holding LLC (continued)				
	RAK Gypsum and Decorations LLC	UAE	60%	60%	Gypsum works
	AAA Contractors LLC	UAE	100%	100%	Construction company
	RAK Universal Plastics LLC	UAE	66%	66%	Manufacturers of pipes
	(refer note (v) below)				
	RAK Logistics LLC	UAE	99%	99%	Freight forwarding and logistics service
	Sherwin Holdings Limited (refer note 16 (ii)(f))	British Virgin Islands	-	100%	Investment company
	Al Hamra For Travels LLC	UAE	100%	100%	Airline ticket booking agent
	RAK Ceramics Typing Est.	UAE	100%	100%	Typing, photocopying and translation services
F	Subsidiaries of RAK Logistics LLC				
	RAK Logistics Hong Kong Limited	Hong Kong	80%	80%	Transport/logistics
	Societe RAK Logistique France Sarl	France	80%	80%	Transport/logistics
	RAK Logistics UK Limited	UK	80%	80%	Transport/logistics
	RAK Logistics Guangzhou Limited (refer note (vi) below)	China	80%	80%	Transport/logistics
G	Subsidiary of RAK Paints LLC				
	Alltek Emirates LLC (refer note (vii) below)	UAE	99%	99%	Manufacturers of paints and adhesive products
H	Subsidiaries of Ceramin FZC LLC (refer note 6)				
	Ceramin LLC	UAE	100%	-	Trading of industrial minerals
	Ceramin India Private Limited	India	100%	-	Extraction, distribution and export of clay and other minerals
	Ceramin SDN BHD	Malaysia	100%	-	Extraction, distribution and export of clay and other minerals

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

2 Subsidiaries and equity accounted investees entities (continued)

	Name of the entity	Country of incorporation	Ownership interest		Principal activities
			2012	2011	
H	Subsidiaries of Ceramin FZC LLC (continued)				
	PT. RAK Minerals Indonesia	Indonesia	100%	-	Mining, trading and contracting
	Feldspar Minerals Co. Limited (refer note (viii) below)	Thailand	64%	-	Extraction, distribution and export of clay and other minerals
I	Jointly controlled entities of Ras Al Khaimah Ceramics PSC				
	RAK Ceramics Italy SRL (refer note 16 (iii))	Italy	-	60%	Trading in ceramic tiles and sanitary ware items
	RAK Distribution Europe (refer note 16 (iii))	Italy	50%	95%	Trading in ceramic tiles
	Elegance Ceramics Italy (refer note 16 (iii))	Italy	-	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	Saudia Arabia	50%	50%	Trading in ceramic tiles and sanitary ware items
	RAK Mineral and Metals Investment FZC (refer note 16 (ii)(b))	UAE	-	50%	Minerals, metal, coal exploration and processing
	Laticrete RAK LLC (refer note (ix) 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 (refer note (ix) below)	UAE	55.55%	55.55%	Manufacturing of chemicals used in ceramic industries
	Prime Builder Contracting Company LLC (refer note 16 (ii) (a))	UAE	-	51%	Construction of buildings and roads
	Prime Builders Asphalt Industry LLC (refer note 16 (ii) (a))	UAE	-	51%	Main roads, streets and related works contracting
	Kludi RAK LLC (refer note (ix) below)	UAE	51%	51%	Manufacturing of water tap, faucets etc.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

2 Subsidiaries and equity accounted investees entities (continued)

I Jointly controlled entities of Ras Al Khaimah Ceramics PSC (continued)

Name of the entity	Country of incorporation	Ownership interest		Principal activities
		2012	2011	
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 (refer note 16 (ii)(a))	UAE	-	51%	Manufacturers of ready mix and ready blocks
ARC International Trading Company	Saudia Arabia	50%	50%	Trading in ceramics tile
RAK Ceramics Holding LLC Georgia (refer note (ix) below)	Georgia	51%	51%	Trading in ceramic tiles and sanitary ware items
Prestige Land Private Company (refer note 16 (ii)(e))	Iran	-	24%	Real estate development project
Agora Commerce and Investments FZ-LLC	Congo	50%	50%	Investment company
RAK Holdings Private Limited	Bangladesh	40%	40%	Investment company
J Associates of RAK Ceramics (Bangladesh) Limited				
RAK Securities and Services Private Limited	Bangladesh	35%	35%	Providing security services
RAK Paints Private Limited	Bangladesh	40%	40%	Manufacturing paints
RAK Moshfly (BD) Private Limited	Bangladesh	20%	20%	Manufacturing pesticides
K Associate of Ceramin FZC LLC				
Palang Suriya Company Limited	Thailand	40%	-	Extraction, distribution and export of clay and other minerals
L Subsidiary of Ceramin India Private Limited				
Shri Shiridi Sai Mines	India	97%	-	Mining activities

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

2 Subsidiaries and equity accounted investees entities (continued)

Name of the entity	Country of incorporation	Ownership interest		Principal activities
		2012	2011	
M Jointly controlled entity of Prestige Tiles Pty Limited				
Massa Imports Pty Limited	Australia	50%	50%	Trading in ceramic tiles
N Jointly controlled entity of RAK Piling LLC				
RAK Piling Bangladesh Private Limited (refer note (x) below)	Bangladesh	50%	-	Real estate development, mechanical and civil works
O Jointly controlled entity of RAK Ceramics Holding LLC				
MEC FZC (refer note 16 (ii)(f))	UAE	-	50%	Investment company
RAK Pharmacy LLC (refer note (xi) below)	UAE	-	51%	Pharmacy
Al Hamra Global Investment FZ-LLC (refer note (xi) below)	UAE	-	100%	Investment company
Keraben Gulf LLC (refer note (ix) below)	UAE	51%	51%	General trading
P Joint venture of Sherewin Holdings				
MEC Coal Pte Limited (refer note 16 (ii)(f))	Singapore	-	50%	Coal mining business

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

2 Subsidiaries and equity accounted investees entities (continued)

- (vi) RAK Logistics Guangzhou Limited is a wholly owned subsidiary of RAK Logistics Hong Kong Limited. The Group holds 80% equity interest in RAK Logistics Hong Kong Limited through RAK Logistics LLC. Accordingly, the Group effectively holds 79.2% equity interest in RAK Logistics Guangzhou Limited.
- (vii) In addition to 99% equity interest in Altek Emirates LLC held by RAK Paints LLC, the Group also holds remaining 1% equity interest which is held by RAK Ceramics Holding LLC, a fully owned subsidiary of the Group. Accordingly the entity has been treated as fully owned subsidiary of the Group.
- (viii) Ceramin FZC holds 40% equity interest in Feldspar Minerals Company Limited. In addition to this, Palang Suriya Company Limited in which Ceramin FZC holds 40% equity interest, also has 60% equity interest in this entity. Accordingly, the Group effectively holds 64% equity interest of Feldspar Minerals Company Limited.
- (ix) Laticrete RAK LLC, RAK Chimica LLC, Kludi RAK LLC, RAK Ceramics Holding LLC Georgia and Keraben Gulf LLC have been considered as Joint Ventures of the Group since the Group exercise only joint control over the financial and operating policies of these entities with other partners.
- (x) The Group has entered into a joint venture agreement with certain third parties to set up RAK Piling Bangladesh Private Limited for the purpose of carrying out real estate development and other related activities. The Group has 50% 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 a jointly controlled entity in these consolidated financial statements.
- (xi) During the year, the Group has derecognised its investment in Al Hamra Global Investment FZ-LLC and RAK Pharmacy LLC as both of the Companies were not operational.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

2 Subsidiaries and equity accounted investees entities (continued)

Name of the entity	Country of incorporation	Ownership interest		Principal activities
		2012	2011	
Q Discontinued operations - held for sale (refer note 21)				
Setrim En Chartreuse	France	100%	100%	Trading in ceramic tiles
SCI Du 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) During the year, the Group has sold 500,000 number of shares out of total 278,388,935 issued and paid up shares. Shares were sold through the automated trading system of Dhaka Stock Exchange Limited. Accordingly the shareholding has decreased from 72.59% to 72.41%.
- (ii) The Group holds 70% equity interest in RAK Industries LLC through Electro RAK LLC. In addition to this, Encom Trading LLC in which Electro RAK LLC holds 90% equity interest, also has 30% equity interest in RAK Industries LLC resulting in a 97% holding by Electro RAK LLC. Accordingly, the Group effectively holds 49.51% equity interest of RAK Industries LLC.
- (iii) In addition to the 50% equity interest in Emirates Heavy Engineering LLC held through Electro RAK LLC, the Group also holds the remaining 50% equity interest through RAK Ceramics Holdings LLC, a fully owned subsidiary of the Group. Accordingly, the Group effectively holds 75.5% equity interest in Emirates Heavy Engineering LLC.
- (iv) RAK Fabrication LLC is a wholly owned subsidiary of Emirates Heavy Engineering LLC. The Group holds 75.5% equity interest in Emirates Heavy Engineering LLC, 50% through RAK Ceramics Holding LLC and 25.5% through Electro RAK LLC. Accordingly, the Group effectively holds 75.5% equity interest of RAK Fabrication LLC.
- (v) The Group holds 66% equity interest in RAK Universal Plastics LLC through RAK Ceramics Holding LLC. In addition to this, RAK Watertech LLC in which RAK Ceramics Holding LLC holds 90% equity interest, also has 24% equity interest in RAK Universal Plastic LLC. Accordingly, the Group effectively holds 87.6% equity interest in RAK Universal Plastics LLC.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

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 except in respect of the following which are measured as follows:

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 35.

4 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities except for the amendment to IAS 12 “*Deferred tax: Recovery of underlying asset*” which is adopted by the Group with effect from 1 January 2012. The application of the amended standard has not caused any significant change in the consolidated financial statements relating to deferred tax or tax expense.

Basis of consolidation

These consolidated financial statements comprise the consolidated statement of financial position and the consolidated results of operations of the Company and its subsidiaries (collectively referred to as “the Group”) on a line by line basis together with the Group’s share in the net assets of its equity accounted investees. The principal subsidiaries, associates and jointly controlled entities have been disclosed in note 2 to the consolidated financial statements.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Basis of consolidation (continued)

Business combinations

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

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

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Consideration transferred also includes the fair value of any contingent consideration. Any contingent consideration payable is recognised at fair value at the acquisition date.

If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

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

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

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 consideration. 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.

Non controlling interests

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

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Basis of consolidation (continued)

Loss of control

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

Investments in 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.

Stepped acquisition

When an acquisition is completed by a series of successive transactions, the Group re-measures its previously held equity interest in the acquiree 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.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Basis of consolidation (continued)

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.

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 generally 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 recognised in other comprehensive income.

Foreign operations

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

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (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.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Foreign currency (continued)

Foreign operations (continued)

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.

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 classifies non-derivatives financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

The Group's non-derivative financial assets include trade and other receivables, cash in hand and at bank, investments at fair value through profit or loss 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, amounts due from related parties and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original 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. Fixed deposits under lien against certain bank facilities are not included as part of cash and cash equivalents.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Financial instruments (continued)

Non-derivative financial assets (continued)

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 recognised 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 recognised 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.

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.

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.

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.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

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 recognized in profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is 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.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Property, plant and equipment (continued)

Recognition and measurement (continued)

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

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

Reclassification to investment property

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

Subsequent cost

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

Depreciation

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

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

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

	Life (years)
• Buildings	30-35
• Plant and equipment	5-15
• Furniture and fixtures	3
• Vehicles	3-5
• Roads and asphaltting	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(iv)).

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Capital work in progress

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

Intangible assets

Goodwill

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

Subsequent measurement

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

Investment property

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

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes *(continued)*

4 Significant accounting policies *(continued)*

Investment property *(continued)*

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

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

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

Leased assets

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

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

Inventories

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

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Construction contracts in progress/Billings in excess of valuation

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

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

Impairment

Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, 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 loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

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

Financial assets measured at amortised cost

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

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

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Impairment (continued)

Non financial assets

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

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

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

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

Employee benefits

Short-term employee benefits

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Employee benefits (continued)

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

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.

Rendering of services

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Revenue (continued)

Construction contracts

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

Rental income

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

Finance income and finance costs

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

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

Tax

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

Current tax

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Tax (continued)

Deferred tax

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

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

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

Zakat

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

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

Leases

Lease payments

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

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

Assets and liabilities held for sale

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

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

Earnings per share

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

Government grants

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

Segment reporting

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

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

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for the annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements:

- *IFRS 9 Financial instruments (2010), IFRS 9 Financial instruments (2009)*: IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015
- In 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities* and IFRS 13 *Fair Value Measurement*, which have an effective date of 1 January 2013. IFRS 10 introduces a single control mode to determine whether an investee should be consolidated. Under IFRS 11, the structure of joint arrangement is no longer the main factor in determining the type of the joint arrangement. IFRS 12 brings together into a single standard all disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and un-consolidated structured entities.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

4 Significant accounting policies (continued)

New standards and interpretations not yet adopted (continued)

- The IASB issued IFRS 13 *Fair Value Measurement* which provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Group is currently reviewing its methodologies in determining fair values. IFRS 13 is effective for annual period beginning on or after 1 January 2013.

Management is currently in the process of assessing the impact of the new standards, amendments to standards and interpretations and amendments to published standards.

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

The fair value of trade and other receivables approximates to their book values due to the current nature of these instruments as the effect of discounting is immaterial. In case trade and other receivables 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 recognised 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 knowledgeably.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

6 Acquisition of subsidiaries and non-controlling interests

Acquisition of a subsidiary in 2012

Ceramin FZC was a wholly owned subsidiary of RAK Minerals and Metals Investments FZ-LLC ("RMMI"), a 50% joint venture of the Group. On 28 June 2012, the Holding Company disposed its investment in RMMI (refer note 16(ii)(b)). However, as part of the sale consideration, the Holding Company entered into a separate Share Transfer Agreement ("the Agreement") with RMMI to acquire 100% equity interest in Ceramin FZC (a wholly owned subsidiary of RMMI) for a consideration of AED 92,400 thousand. Also refer note 29.

Pursuant to the Agreement, Ceramin FZC has now become a wholly owned subsidiary of the Company. At the time of acquisition of Ceramin FZC, provisional accounting was done based on values of the identifiable assets and liabilities. However, based on further information now available with the Group as at the reporting date, the fair values of the net identifiable assets and liabilities has been revised and accordingly the goodwill is recalculated.

The fair values of the identifiable assets and liabilities of Ceramin FZC acquired by the Holding Company were as follows:

	Fair value as provisionally stated AED'000	Fair value revised AED'000
Assets:		
Property, plant and equipment	26,565	35,148
Investments	2,647	490
Loans and advances	37,256	30,333
Current assets – inventories and receivables	17,124	21,249
Cash in hand and at bank	9,816	10,333
Deposits	496	546
Due from related parties	48,328	9,147
	-----	-----
Total assets acquired	142,232	107,246
	-----	-----
Liabilities:		
Trade and other payables	40,228	24,555
Due to related parties	50,684	39,639
Bank borrowings	1,158	1,008
	-----	-----
Total liabilities acquired	92,070	65,202
	-----	-----
Net assets acquired	50,162	42,044
	=====	=====
Consideration transferred – settlement of amount receivable on disposal of RMMI (refer note 16(ii)(b))	(46,200)	(46,200)
Fair value of pre-existing interest in Ceramin FZC (refer note 16(ii)(c))	(46,200)	(46,200)
	-----	-----
	(92,400)	(92,400)
	=====	=====
Goodwill	42,238	50,356
	=====	=====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

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

Acquisition of a subsidiary in 2012 (continued)

On 28 June 2012, as part of acquisition accounting, the Group recognised provisional amount of AED 50.16 million and AED 42.24 million in respect of net assets and goodwill respectively based on the financial information of Ceramin FZC available at that date. In December 2012, the Group adjusted the provisional amounts recognised at the acquisition date, based on the new information available pertaining to these net assets. Legal formalities to transfer shareholding are currently under process.

Accordingly, net assets have decreased and goodwill has increased by AED 8.12 million.

In the period from acquisition of controlling interest in Ceramin FZC up to 31 December 2012, the investee contributed revenue of AED 25.40 million and loss of AED 1.54 million to the Group's results. If the acquisition had occurred on 1 January 2012, management estimates that consolidated revenue would have been AED 3,207.27 million, and consolidated profit for the year would have been AED 228.24 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition has occurred on 1 January 2012.

Acquisition of subsidiaries in 2011

In the previous year in April 2011, the Company acquired 50% of the beneficial interest in RAK Ceramics (Al Ain) & RAK Ceramics (Abu Dhabi) (formerly known as Prime Builders Trading Establishment) which was previously held by a third party. RAK Ceramics (Al Ain) & RAK Ceramics (Abu Dhabi) are branches of Ras Al Khaimah Ceramics PSC and are engaged in the trading and distribution of ceramics and sanitary ware products in the city of Al Ain and Abu Dhabi respectively.

This acquisition was done with the purpose of taking control of RAK Ceramics (Al Ain) & RAK Ceramics (Abu Dhabi) which will enable the Group to market and distribute its products more effectively in new geographical horizons.

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

The following summarises the recognised 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
Total net assets	24,000	1,656
	=====	=====
Net assets attributable to equity shares acquired	12,000	828
	=====	=====
Consideration paid in cash	12,000	828
	=====	=====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

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

Acquisition of subsidiaries in 2011 (continued)

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.

Equity interest acquired from/disposed to non-controlling interests in 2011

- i) In the previous year in 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%. As a result of this transaction, the Group recognised a decrease in non-controlling interests of AED 24,422. Subsequently, the Group 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%.
- ii) During the previous 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 Group recognised a decrease in non-controlling interests of AED 586,153.
- iii) During the previous 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%.

7 Revenue

	2012 AED'000	2011 AED'000
Sale of goods	2,846,072	2,835,375
Rendering of services	79,687	67,117
Construction contract revenue	242,375	434,265
	-----	-----
	3,168,134	3,336,757
	=====	=====

8 Cost of sales

	2012 AED'000	2011 AED'000
Raw materials consumed	1,012,861	1,055,241
Provision for slow moving and obsolete inventory (refer note 17)	17,524	19,045
Provision for write down of inventory to net realisable value (refer note 17)	40,121	33,560
Direct labour	254,658	293,323
Power and fuel	200,006	197,640
LPG and natural gases	288,658	305,575
Depreciation (refer note 13)	105,328	194,659
Repairs and maintenance	303,197	327,325
Amortisation of intangible assets (refer note 14)	377	584
Others	88,526	126,214
	-----	-----
	2,311,256	2,553,166
	=====	=====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

9 Administrative and general expenses

	2012 AED'000	2011 AED'000
<i>These include:</i>		
Staff costs	86,211	97,150
Depreciation (refer note 13)	23,949	23,948
Depreciation on investment properties (refer note 15)	7,184	7,657
Telephone, postal and office supplies	12,192	11,417
Repairs and maintenance	14,713	10,882
Legal and professional fee	8,414	5,523
Amortisation of intangible assets (refer note 14)	2,600	654
Loss on sale of investments at fair value through profit or loss	-	138
Loss on revaluation of investments at fair value through profit or loss (refer note 22)	44	90
Impairment loss on trade receivables (refer note 33)	73,716	89,009
Impairment loss on amounts due from related parties (refer note 29)	51,295	17,348
	=====	=====

10 Selling and distribution expenses

	2012 AED'000	2011 AED'000
Staff costs	64,334	62,171
Freight and transportation	144,811	126,515
Performance rebates	75,590	81,769
Advertisement and promotions	72,806	44,158
Travel and entertainment	4,406	7,467
Depreciation (refer note 13)	3,585	5,924
Others	12,814	8,208
	-----	-----
	378,346	336,212
	=====	=====

11 Other income

	2012 AED'000	2011 AED'000
Rental income from investment properties (refer note 15)	22,497	26,103
Sale of scrap and miscellaneous items	9,167	16,566
Insurance claims	337	154
Gain on disposal of property, plant and equipment	1,395	2,174
Tax subsidies (i)	4,458	7,996
Other miscellaneous income	21,127	14,850
	-----	-----
	58,981	67,843
	=====	=====

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

12 Finance income and expense

	2012 AED'000	2011 AED'000
Finance income		
Interest on fixed deposits	5,657	9,701
Net change in the fair value of derivatives (refer note 28 (iv))	2,170	12,853
Interest on amounts due from related parties (refer note 29)	4,037	4,568
Others	11,962	215
	-----	-----
	23,826	27,337
	=====	=====
Finance expense		
Interest on bank borrowings	98,238	110,131
Interest on amounts due to related parties (refer note 29)	1,741	605
Bank charges	19,527	27,380
Net foreign exchange loss	35,221	19,074
	-----	-----
	154,727	157,190
	=====	=====
 Net finance expense recognised in profit or loss	 130,901	 129,853
	=====	=====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

13 Property, plant and equipment

Cost	Land and buildings AED'000	Plant and equipment AED'000	Vehicles AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Road and asphaltting AED'000	Quarry and land development AED'000	Capital work in progress AED'000	Total AED'000
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	2,363	3,604	15	-	73,979	132,394
Acquisition through business combination (refer note 6)	-	849	2,274	212	193	-	-	-	3,528
Reclassifications from investment property (refer note 15)	-	750	6,289	-	-	-	-	-	7,039
Transfer from capital work in progress	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 movements 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
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Balance at 1 January 2012	606,824	2,392,693	73,030	34,586	31,422	20,083	129	40,907	3,199,674
Additions	38,178	18,344	3,196	962	1,835	194	-	46,133	108,842
Acquisition through business combination (refer note 6)	13,182	38,926	2,328	2,260	-	-	-	1,317	58,013
Transfer to investment property (refer note 15)	(89,265)	-	-	-	-	-	-	-	(89,265)
Transfer from capital work in progress	9,627	26,355	391	322	545	43	-	(37,283)	-
Disposals/writeoffs	(1,000)	(3,343)	(3,122)	(404)	(712)	-	-	(82)	(8,663)
Effect of movements in exchange rates	(29,506)	(169,393)	(4,985)	(750)	(614)	(2,432)	-	(8,723)	(216,403)
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Balance at 31 December 2012	548,040	2,303,582	70,838	36,976	32,476	17,888	129	42,269	3,052,198
	=====	=====	=====	=====	=====	=====	=====	=====	=====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

13 Property, plant and equipment (continued)

	Land and buildings AED'000	Plant and equipment AED'000	Vehicles AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Road and asphaltting AED'000	Quarry & land development AED'000	Capital work in progress AED'000	Total AED'000
Accumulated depreciation									
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 combination (refer note 6)	-	272	1,687	196	160	-	-	-	2,315
On disposals/write offs	(580)	(38,757)	(1,192)	(580)	(616)	-	-	-	(41,725)
Transfers/reclassifications	-	248	6,279	-	9	-	-	-	6,536
Effect of movements 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
	=====	=====	=====	=====	=====	=====	=====	=====	=====
At 1 January 2012	224,257	1,621,692	60,775	18,411	26,261	13,557	129	-	1,965,082
Charge for the year	17,235	103,632	5,382	3,439	2,455	719	-	-	132,862
Acquisition through business combination (refer note 6)	4,545	14,496	2,044	1,780	-	-	-	-	22,865
On disposals/write offs	(999)	(2,987)	(2,485)	(319)	(658)	-	-	-	(7,448)
Transfers to investment property (refer note 15)	(4,945)	-	-	-	-	-	-	-	(4,945)
Effect of movements in exchange rates	(11,100)	(77,872)	(4,121)	(722)	(419)	(1,251)	-	-	(95,485)
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Balance at 31 December 2012	228,993	1,658,961	61,595	22,589	27,639	13,025	129	-	2,012,931
	=====	=====	=====	=====	=====	=====	=====	=====	=====
Net book value									
At 31 December 2012	319,047	644,621	9,243	14,387	4,837	4,863	-	42,269	1,039,267
	=====	=====	=====	=====	=====	=====	=====	=====	=====
At 31 December 2011	382,567	771,001	12,255	16,175	5,161	6,526	-	40,907	1,234,592
	=====	=====	=====	=====	=====	=====	=====	=====	=====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

13 Property, plant and equipment (continued)

The depreciation charge has been allocated as follows:

	2012 AED'000	2011 AED'000
Cost of sales (refer note 8)	105,328	194,659
Administrative and general expenses (refer note 9)	23,949	23,948
Selling and distribution expenses (refer note 10)	3,585	5,924
	-----	-----
	132,862	224,531
	=====	=====

(i) Land and buildings

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

(ii) Capital work-in-progress

Capital work in progress mainly includes building structure under construction and heavy equipment, machinery and software under installation. Capital work in progress also includes borrowing cost amounting to AED Nil (2011: AED 1.11 million) capitalised for assets under construction in accordance with IAS 23 "Borrowing Cost".

(iii) Transfer to investment properties

During the current year, the Group has transferred a hotel building with the net book value of AED 84.32 million to investment property. This represents cost of a hotel building which has been leased out by the Group to a third party to earn rental income. In the previous year, the Group had transferred an accommodation building with the net book value of AED 107.37 million to investment property (refer note 15).

(iv) Change in estimates

During the current year, management has carried out a review of the useful lives of property, plant and equipment and buildings and has revised the useful life of plant and equipment from 10 years to 15 years and buildings from 22 years to 30 years of a Group entity, RAK Ceramics India Private Limited. The revision in estimated useful life is effective from 1 January 2012 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 2012 would have been higher and the profit for the year would have been lower by AED 10.53 million. The effect of this change on the depreciation expense recognised in profit or loss, in future years is as follows:

	2013	2014	2015	2016	2017	Later
	----- (AED in millions) -----					
(Decrease) / increase in depreciation expense	(9.38)	(9.38)	(9.34)	(2.15)	3.39	37.39

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

14 Intangible assets

	2012 AED'000	2011 AED'000
Balance at 1 January	7,932	7,848
Additions during the year	2,986	2,226
Amortisation during the year	(2,977)	(1,238)
Effect of movements in exchange rates	(864)	(904)
	-----	-----
Balance at 31 December	7,077	7,932
	=====	=====

Intangible assets mainly include licenses acquired to use formulation for pharmaceutical products in Bangladesh. These are amortised over the period for which the licence is acquired which is in range from 5 to 15 years. Amortisation for the year has been allocated as follows:

	2012 AED'000	2011 AED'000
Cost of sales (refer note 8)	377	584
Administrative and general expenses (refer note 9)	2,600	654
	-----	-----
	2,977	1,238
	=====	=====

15 Investment properties

	2012 AED'000	2011 AED'000
Cost		
Balance at 1 January	176,805	61,996
Additions during the year	-	14,480
Transfers from property, plant and equipment (refer note (ii) below)	89,265	107,368
Reclassification to property, plant and equipment (refer note 13)	-	(7,039)
Effect of movements in exchange rates	272	-
	-----	-----
Balance at 31 December	266,342	176,805
	=====	=====
Accumulated depreciation and impairment		
Balance at 1 January	23,584	21,864
Charge for the year (refer note 9)	7,184	7,657
Reclassification to property, plant and equipment (refer note (ii) below)	-	(6,536)
Transfer from property, plant and equipment (refer note 13)	4,945	-
Impairment loss	-	599
	-----	-----
Balance 31 December	35,713	23,584
	=====	=====
Net book value – at 31 December	230,629	153,221
	=====	=====
Fair value – at 31 December	361,995	154,619
	=====	=====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

15 Investment properties (continued)

- (i) Transfer from property, plant and equipment represents a hotel building with the net book value of AED 84.32 million. During the current year, the Group discontinued its business of hotel operations. The hotel building and related assets have been leased to a third party for a fixed monthly rental. Accordingly, the carrying value of the building under property, plant and equipment has been reclassified to investment property due to change in its use: (2011: an accommodation building amounting to AED 107.37 million) (refer note 13).
- (ii) The Group has obtained independent valuation report for its investment properties. The fair value of investment properties as per the report of the independent valuer is AED 362 million. Based on the fair values of investment properties, the Group has recognised an impairment loss of Nil (2011: AED 0.6 million) during the current year.
- (iii) During the year ended 31 December 2012, the Group has earned rental income amounting to AED 22.49 million (2011: AED 26.1 million) from the investment properties. (refer note 11).

16 Investment in equity accounted investees

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

	2012 AED'000	2011 AED'000
At 1 January	665,061	523,295
Investments made during the year (refer note (i) below)	16,369	62,073
Share in profits during the year	24,695	156,961
Disposals during the year (refer note (ii) below)	(341,963)	-
Transferred to investments held for sale	-	(4,370)
Conversion to subsidiaries (refer note 6)	-	(12,828)
Dividends received during the year	(19,575)	(33,812)
Effect of movements in exchange rates	913	(4,738)
Written off during the year	-	(1,132)
Others	-	(20,388)
	-----	-----
At 31 December	<u>345,500</u>	<u>665,061</u>

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

16 Investment in equity accounted investees (continued)

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

	2012 AED'000	2011 AED'000
Prestige Land Private Company	-	29,391
RAK Piling Bangladesh Private Limited	11,827	-
RAK Paints Private Limited	3,602	5,552
RAK Warehouse Leasing LLC	-	21,000
Kludi RAK LLC	-	5,890
RAK Moshlfy (Bangladesh) Private Limited	450	240
Other entities	490	-
	----- 16,369 =====	----- 62,073 =====

(ii) Disposal of equity accounted investees

(a) The Group had 51% equity interest in the following jointly controlled entities:

- Prime Builders Contracting LLC ("PBC");
- Prime Builders Construction Materials Industry LLC ("PBCMI"); and
- Prime Builders Asphalt Industry LLC ("PBAI").

On 15th September 2012, the Group disposed its entire 51% shareholding in all the three entities for a consideration of AED 50 million to a third party and retained cash, trade receivables and all liabilities.

	AED'000
Carrying value of investment at the date of disposal	44,907
Less: Cash, trade receivables less liabilities retained	(225)
	----- 44,682
Less: Sale consideration (settled in cash)	50,000
	----- 5,318 =====
Profit on disposal of investment (A)	

(b) The Group had 50% equity interest in a jointly controlled entity "RAK Mineral and Metals Investment FZC" ("RMMI"). RMMI owns a 100% subsidiary known as Ceramin FZC. On 28 June 2012, the Group disposed its entire 50% shareholding in RMMI to a related party, and recognised a profit of AED 128.8 million on disposal of RMMI.

	AED'000
Net book value of investment in RMMI at the date of disposal	109,700
Add: Profit on fair value of 50% investment in Ceramin (refer note (c) below)	21,200
	----- 130,900
Less: Sale consideration (refer note below)	259,700
	----- 128,800 =====
Profit on disposal of investment in RMMI (B)	
Total profit on disposal of equity accounted investees (A+B)	134,118 =====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

16 Investment in equity accounted investees (continued)

(ii) Disposal of equity accounted investees (continued)

- (b) The consideration has been partly settled by transfer of 100% shareholding in Ceramin FZC valued at AED 92.40 million (refer note 6) and partly by cash of AED 120 million and cash receivable of AED 47.30 million. The receivables amount is included in other related party receivables (refer note 29).
- (c) The carrying value of Group's 50% equity interest in Ceramin was AED 25 million at 28 June 2012. During the current period, the Group increased its shareholding from 50% to 100% (refer note 6). Accordingly, the Group fair valued its existing 50% equity interest at AED 46.20 million and recognised a profit on fair valuation amounting to AED 21.20 million at the date of increase in shareholding to 100%.
- (d) Management is of the view that the transactions in (a), (b) and (c) explained above are carried out in the ordinary course of business of the Group.
- (e) The Group had 24% equity interest in a jointly controlled entity "Prestige Land Private Company". Effective 31 December 2012, the Group disposed its entire 24% shareholding in this entity to a related party at carrying value. As per the terms of the agreement, the amount will be paid in ten equal annual instalments of AED 14.3 million commencing from 2013 till 2022 (also refer note 29). The legal formalities to transfer the shareholdings are in progress at the reporting date.

	AED'000
Net book value of investment in Prestige Land Private Company	114,797
Add: Other receivables	1,426
	116,223
	116,223
Total consideration to be received	143,300
Less: Discounting of long term receivables	(27,077)
	116,223
	116,223

- (f) Effective 31 December 2012, the Group has disposed its investment in a special purpose subsidiary, Sherwin Holdings Limited, and thereby 50% equity interest in MEC Coal Pte Limited (MEC), a limited liability company incorporated in June 2008 and registered in Singapore is also disposed off. In the previous year, the Group had recognised its share of accumulated profits of MEC from incorporation to 31 December 2011 amounting to AED 72.56 million based on the expectation of realisation of the value of investment from the cash flows generated from the future operations of MEC once the commercial production commences from 2014. However, during the current year, on 31 December 2012, the Group disposed its entire shareholding in MEC and MEC FZC to a related party, at carrying value. (refer note 29). As per the terms of the agreement, the amount will be paid in ten equal annual instalments of AED 16.01 million commencing from 2013 till 2022.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

16 Investment in equity accounted investees (continued)

(ii) Disposal of equity accounted investees (continued)

(f) Continued

	AED'000
Net book value of investment in MEC Coal Pte Limited/ Sherwin Holdings Limited	72,559
Add: Receivables from MEC FZC	58,647

	131,206
	=====
Total consideration to be received	160,100
Less: Discounting of long term receivables	(28,894)

Net consideration	131,206
	=====

(iii) The Group had 60%, 60% and 95% equity interest in Elegance Ceramiche SRL, RAK Ceramics ITALIA SRL and RAK Distribution Europe SRL respectively. During the year, Elegance Ceramiche SRL and RAK Ceramics ITALIA SRL have been merged into RAK Distribution Europe SRL. As per the agreement, the revised holding of the Group has been changed to 50% thereby resulting in a reduction in ownership interest by 10%, 10% and 45% respectively. Furthermore, the Group's investment in RAK Distribution Europe SRL is held in the name of one Director of the Company for the beneficial interest of the Group. Accordingly a loss of AED 0.62 million has been recorded in these consolidated financial statements.

(iv) The Group has not recognised losses of RAK Ceramics UK Limited amounting to AED 1.79 million in 2012 (2011: AED 2.54 million) over and above the Group's initial investment, since the Group has no obligation in respect of these losses.

(v) The aggregate amount of income, expense, assets and liabilities at 31 December 2012 of equity accounted investees of the Group, not adjusted for the percentage ownership held by the Group, is set out below:

	2012 AED'000	2011 AED'000
Non-current assets	338,740	2,528,532
Current assets	1,098,520	3,083,732
Current liabilities	(595,197)	(1,331,867)
Non-current liabilities	(168,777)	(1,307,497)
	-----	-----
Net assets	673,298	2,972,900
	=====	=====
Revenue	1,156,403	1,527,894
	=====	=====
Profit for the year	83,770	315,273
	=====	=====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

17 Inventories

	2012 AED'000	2011 AED'000
Finished goods	533,719	557,141
Less: Provision for slow moving and obsolete inventories	(21,875)	(12,951)
	<u>511,844</u>	<u>544,190</u>
Raw materials	280,043	331,418
Goods-in-transit	51,744	33,768
Work-in-progress	15,023	15,205
Stores and spares	210,538	220,180
	<u>1,069,192</u>	<u>1,144,761</u>
Less: Provision for slow moving raw materials and stores and spares *	(34,378)	(25,778)
	<u>1,034,814</u>	<u>1,118,983</u>

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

During the year ended 31 December 2012, the Group recognised a write-down of finished goods inventory to net realisable value of AED 40.12 million (2011: AED 33.56 million). Refer note 8.

Inventories amounting to AED 103.13 million (2011: AED 177.10 million) are subject to a charge in favour of banks against facilities obtained by the Group (refer note 25(vii)).

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

	2012 AED'000	2011 AED'000
As at 1 January	38,729	19,684
Charge for the year (refer note 8)	17,524	19,045
	<u>56,253</u>	<u>38,729</u>

18 Trade and other receivables

	2012 AED'000	2011 AED'000
Trade receivables	1,087,103	1,195,200
Less: Allowance for impairment losses	(150,723)	(112,907)
	<u>936,380</u>	<u>1,082,293</u>
Advances	80,662	65,900
Deposits	12,003	7,667
Other receivables	69,554	84,772
	<u>1,098,599</u>	<u>1,240,632</u>

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

18 Trade and other receivables (continued)

Trade receivables amounting to AED 65.85 million (2011: AED 65.80 million) are subject to a charge in favour of banks against facilities obtained by the Group (refer note 25(vii)).

19 Contract work-in-progress/(Billings in excess of valuation)

	2012 AED'000	2011 AED'000
Costs incurred to date	327,079	522,572
Add: Estimated attributable profits less expected losses	46,904	(21,810)
	-----	-----
	373,983	500,762
Less: Progress billings	(328,155)	(447,203)
	-----	-----
Contract work-in-progress	45,828	53,559
	=====	=====
Disclosed in the statement of financial position as below:		
Contract work in progress	48,175	53,559
Billing in excess of valuations	(2,347)	-
	-----	-----
	45,828	53,559
	=====	=====

20 Cash in hand and at bank

	2012 AED'000	2011 AED'000
Cash in hand	1,576	1,913
Cash at bank		
- in fixed deposits	179,359	161,945
- in current accounts	279,646	157,447
- in margin deposits	3,271	3,303
- in call accounts	30,804	15,814
	-----	-----
	494,656	340,422
	=====	=====

Cash in hand and cash at bank includes AED 0.46 million (2011: AED 0.72 million) and AED 66.16 million (2011: AED 86.65 million) respectively, held outside UAE.

Fixed deposits carry interest at normal commercial rates. Fixed deposits include AED 94.06 million (2011: AED 34.15 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 2013.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

21 Assets and liabilities held for sale (continued)

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 28.64 million as at 31 December 2012.

During the current year, the Group has recognised a cumulative amount of AED 1.58 million (2011: 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 0.10 million (2011: AED 0.14 million) as at 31 December 2012 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 measured at fair value. The fair value loss on revaluation of these investments at the reporting date amounting to AED 0.04 million (2011: AED 0.09 million) has been recognised in profit or loss (refer note 9).

23 Capital and reserves

	2012 AED'000	2011 AED'000
(i) Share capital		
<i>Authorised and issued</i>		
170,000,000 shares of AED 1 each paid up in cash	170,000	170,000
573,202,460 shares of AED 1 each issued as bonus shares	573,202	573,202
	-----	-----
743,202,460 shares of AED 1	743,202	743,202
	=====	=====

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

(ii) Share premium reserve

	AED'000 2012 and 2011
On the issue of shares of:	
- Ras Al Khaimah Ceramics PSC (refer note (a) below)	165,000
- RAK Ceramics (Bangladesh) Limited, Bangladesh (refer note (b) below)	60,391
Less: Share issue expenses	(3,583)

Total	221,808
	=====

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

23 Capital and reserves (continued)

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

(iii) Translation reserve

The translation reserve comprises 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 these 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 these subsidiary companies.

(v) Capital reserve

Capital reserve of AED 55.16 million (2011: AED 55.16 million) represents the Group's share of retained earnings capitalised by various subsidiaries. The capital reserve is non-distributable.

(vi) Proposed dividend

For 2012, the Directors have proposed a cash dividend of AED 0.20 per share which will be submitted for approval of the shareholders at the Company's Annual General Meeting in April 2013. 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.

24 Earnings per share

The calculation of basic earnings per share at 31 December 2012 is based on the profit attributable to ordinary shareholders of the Company of AED 223.08 million (2011: AED 205.19 million), and the weighted average number of ordinary shares outstanding of AED 743,202 thousand (2011: AED 743,202 thousand), calculated as follows:

	2012	2011
Net profit attributable to owners of the Company (AED'000)	223,081	205,195
Weighted average number of shares outstanding ('000s)	743,202	743,202
Earnings per share (AED)	0.30	0.28

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.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

25 Bank borrowings

	2012 AED'000	2011 AED'000
Short-term		
Bank overdrafts	111,572	153,902
Short-term loans	421,561	361,232
Trust receipts	286,613	289,823
Current portion of long-term loans	711,618	450,443
	<u>1,531,364</u>	<u>1,255,400</u>
Long-term		
Bank loans	1,148,644	1,362,187
Less: Current portion of long-term loans	(711,618)	(450,443)
	<u>437,026</u>	<u>911,744</u>

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

Currency	Interest range	2012 AED'000	2011 AED'000
AUD	5.6% - 8.4%	25,924	26,751
BDT	14% - 16%	1,524	2,092
AED	4% - 7.50%	87,508	249,936
EUR	0.6% - 5.55%	52,490	86,226
INR	11%	69	229
USD	2% - 4.25%	981,129	996,953
		<u>1,148,644</u>	<u>1,362,187</u>
Total			

The Group has obtained long term and short term facilities from various banks for financing acquisition of assets, project financing or to meet its working capital requirements. Majority of these bank borrowings are denominated either in the functional currencies of the respective borrowing entities or in USD, a currency against which the functional currency of the Company is 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 2013 to 2019.

These bank borrowings are secured by:

- (i) Negative pledge over certain assets of the Group;
- (ii) Pari-passu rights with other unsecured and unsubordinated creditors;
- (iii) Mortgage / hypothecation of relevant motor vehicles in favour of the bank (refer note 13);
- (iv) Promissory note for AED 95 million;
- (v) Assignment of insurance over furniture, fixtures and equipments of certain Group entities in favour of the bank;
- (vi) Corporate guarantee of the Company; and
- (vii) Hypothecation of inventories and receivable of certain Group entities (refer notes 17 and 18).

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

25 Bank borrowings (continued)

The borrowing arrangements include undertakings to comply with various covenants comprising 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

	2012 AED'000	2011 AED'000
Trade payables	595,693	850,003
Accrued and other expenses	153,333	169,778
Advances from customers	31,294	67,189
Provision for agents and sales commission and rebates	24,734	19,294
Other payables	9,210	11,685
	-----	-----
	814,264	1,117,949
	=====	=====

27 Staff terminal benefits

	2012 AED'000	2011 AED'000
At 1 January	62,197	48,444
Charge for the year	16,929	20,728
Payments made during the year	(12,862)	(7,753)
Effect of movements in exchange rate	(171)	778
	-----	-----
At 31 December	66,093	62,197
	=====	=====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

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 analysed 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 2012					
Interest rate swaps	-	5,087	851,047	566,351	284,696
Currency swaps	1,081	-	18,306	9,153	9,153
Forward foreign exchange contracts	44	-	29,745	29,745	-
	<u>1,125</u>	<u>5,087</u>	<u>899,098</u>	<u>605,249</u>	<u>293,849</u>
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	-
	<u>554</u>	<u>6,686</u>	<u>532,049</u>	<u>232,313</u>	<u>299,736</u>

- (i) The Group has entered into various interest rates swap agreements whereby it has converted the LIBOR 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 5 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 5 million at a future date.
- (iv) The difference between net mark-to-market value of the derivative financial instruments as at 31 December 2012 amounting AED 3.96 million as compared to the value of AED 6.13 million on 31 December 2011 has resulted in a gain of AED 2.17 million (2011: AED 12.85 million) which has been recognised in finance income (refer note 12).

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

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 mutually agreed rates. The significant transactions entered into by the Group with related parties, other than those disclosed elsewhere in these consolidated financial statements, are as follows:

Transactions with related parties

	2012 AED'000	2011 AED'000
A) Equity accounted investees		
Sale of goods and services and construction contracts	416,079	163,939
Purchase of goods and services	64,109	128,335
Interest paid (refer note 12)	1,741	605
Interest received (refer note 12)	1,580	2,677
Rental income	5,379	5,809
	=====	=====
B) Other related parties		
Sales of goods and services	12,049	69,069
Purchase of goods and services	401	19,669
Interest received (refer note 12)	2,457	1,891
Rental income	4,557	13,206
	=====	=====

Also refer notes 6 and 16.

Key management personnel compensation

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

	2012 AED'000	2011 AED'000
Short-term benefits	9,101	15,501
Staff terminal benefits	170	144
	=====	=====

Due from related parties

	2012 AED'00	2011 AED'000
Equity accounted investees	538,698	562,871
Other related parties	212,968	321,890
Less: Allowance for impairment losses (refer note 9)	(60,090)	(17,348)
	-----	-----
	691,576	867,413
	=====	=====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

29 Related parties (continued)

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

Due to related parties

	2012 AED'000	2011 AED'000
Equity accounted investees	115,219	73,327
Others related parties	5,312	247
	-----	-----
	120,531	73,574
	=====	=====

Certain related party balances carry interest at mutually agreed rates.

Long term receivables from related parties

	2012 AED'000	2011 AED'000
Long term amount receivable from related parties (refer notes 16(ii)(e) and (f))	303,400	-
Less: Discounting of long term receivables	(55,971)	-
	-----	-----
	247,429	-
Less: Current portion	(20,680)	-
	-----	-----
Long term portion	226,749	-
	=====	=====

For terms of repayment, refer notes 16(ii)(e) and (f).

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

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:

	2012 AED'000	2011 AED'000
Current tax		
Current year	23,184	13,791
Deferred tax		
Originating and reversal of temporary tax differences	11,046	(16,411)
Adjustment for prior years	(12,092)	3,770
	-----	-----
Total deferred tax	(1,046)	(12,641)
	-----	-----
Tax expense for the year	22,138	1,150
	=====	=====
Provision for tax	68,169	50,899
	=====	=====
Deferred tax liability	8,819	9,033
	=====	=====
Deferred tax asset	2,609	792
	=====	=====

The domestic tax rate of the Group is 0%. The Group's consolidated effective tax rate is 8.97% for 2012 (2011: 0.51%) which is primarily due to the effect of tax rates in foreign jurisdictions.

31 Contingent liabilities and commitments

	2012 AED'000	2011 AED'000
Letters of guarantee	92,415	119,870
Letters of credit	46,896	67,344
Capital commitments	5,646	387
VAT and other tax contingencies	33,216	11,799
	=====	=====

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.

The Company has issued bank guarantees for advances obtained by related parties from commercial banks. Guarantees outstanding as at 31 December 2012 amount to AED 531.3 million (31 December 2011: AED 558.89 million).

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

32 Operating leases

As lessor:

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

	2012 AED'000	2011 AED'000
Less than one year	16,142	13,547
Between two and five years	57,268	54,000
More than five years	171,394	185,976
	-----	-----
	244,804	253,523
	=====	=====

33 Financial instruments

Risk management overview

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

- Credit risk
- Liquidity risk
- Market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Group's senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities. The Group's current financial risk management framework is a combination of formally documented risk management policies in certain areas and informal risk management practices in others. The Group's risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by the internal audit department. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

33 Financial instruments (continued)

Risk management overview (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 behaviour.

At 31 December 2012, the Group has a subsidiary in Iran, RAK Ceramics PJSC Limited ("RAK Iran") which is engaged in the manufacturing and sale of ceramic tiles and has net assets amounting to AED 122.79 million (2011: AED 254.66 million) as at that date.

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 55% against the US Dollar in the period from 1 January 2012 to 31 December 2012.

The Board of Directors of the Company have reviewed the Group's exposure in Iran at the reporting date in view 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 arrange for the repatriation of funds and accordingly are of the view that no allowance for impairment is required to be created in these consolidated financial statements for the year ended 31 December 2012. During the current year, the Group has disposed an investment in an associate in Iran (refer note 16(ii)(e)).

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

The Group also holds into derivative instruments, primarily interest rate swap, 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. As the part of Group's strategy, no trading in derivatives is undertaken.

Credit risk

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

33 Financial instruments (continued)

Credit risk (continued)

Exposure to credit risk

The maximum exposure to credit risk at the reporting date was:

	2012 AED'000	2011 AED'000
Trade and other receivables	1,022,106	1,179,367
Cash at bank	493,080	338,509
Due from related parties	691,576	867,413
Long term receivables from related parties	226,749	-
	<u>2,433,511</u>	<u>2,385,289</u>

Trade and other receivables and amount due from related parties

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which the customers operate, as these factors may have an influence on credit risk. The Group's ten largest customers account for 26.07% (2011: 26.59%) of the outstanding trade receivables as at 31 December 2012. 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 credit worthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the senior Group management; these limits are reviewed periodically.

In monitoring credit risk, customers and related parties are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. As a result of the deteriorating economic circumstances in recent years, certain credit limits have been redefined.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade accounts, related party receivables and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The Group's management considers related party receivables at the reporting date as fully recoverable at their carrying amounts.

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

33 Financial instruments (continued)

Credit risk (continued)

Exposure to credit risk (continued)

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

	2012 AED'000	2011 AED'000
Middle East (ME)	1,042,268	1,080,759
Euro-zone countries	506,808	311,966
Asian countries (Other than ME)	177,246	435,399
Other regions	214,109	218,656
	<u>1,940,431</u>	<u>2,046,780</u>
Trading and manufacturing	1,592,696	1,715,653
Contracting	219,720	18,029
Other industrial	17,566	285,480
Others	110,449	27,618
	<u>1,940,431</u>	<u>2,046,780</u>

Impairment losses

At 31 December 2012, trade receivables with a nominal value of AED 150.7 million (2011: AED 112.9 million) were impaired. Movement in the allowance for impairment loss of trade receivables were as follows:

At 1 January	112,907	68,990
Charge for the year (refer note 9)	73,716	89,009
Amounts reversed/written off	(35,900)	(45,092)
	<u>150,723</u>	<u>112,907</u>

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

At 1 January	17,348	-
Charge for the year (refer note 9)	51,295	17,348
Amounts reversed/written off	(8,553)	-
	<u>60,090</u>	<u>17,348</u>

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

33 Financial instruments (continued)

Credit risk (continued)

Impairment losses (continued)

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

	Total AED'000	Neither past due nor impaired AED'000	I-----Past due but not impaired-----I		
			<180 days AED'000	180-360 days AED'000	>360 days AED'000
2012	936,380	333,175	319,855	140,063	143,287
	=====	=====	=====	=====	=====
2011					
	1,949,706	396,628	363,591	164,796	157,278
	=====	=====	=====	=====	=====

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

Balances with banks

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

33 Financial instruments (continued)

Market risk

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

Currency risk

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

The Group enters into forward exchange contracts to hedge its currency risk, generally with a maturity of less than one year from the reporting date. The Group also has currency swap arrangements with a maturity of more than 1 year.

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

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

33 Financial instruments (continued)

Market risk (continued)

Exposure to currency risk

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

	GBP	USD	EURO
	I-----'000-----I		
31 December 2012			
Trade and other receivable (including due from related parties)	5,852	115,865	47,224
Cash and bank balances	19,061	7,414	4,070
Trade and other payables	217	(8,031)	(20,058)
Bank loans	-	(395,289)	(18,447)
Net statement of financial position exposure	----- 25,130	----- (280,041)	----- 12,789
Forward exchange transaction	(5,000)	-	-
Net exposure	----- 20,130 =====	----- (280,041) =====	----- 12,789 =====
31 December 2011			
Trade and other receivables (including due from related parties)	5,809	67,146	57,024
Cash and bank balances	12,409	14,209	5,312
Trade and other payables	(513)	(66,244)	(31,729)
Bank loans	-	(336,371)	(27,925)
Net statement of financial position exposure	----- 17,705	----- (321,260)	----- 2,682
Forward exchange transaction	(4,500)	-	-
Net exposure	----- 13,205 =====	----- (321,260) =====	----- 2,682 =====

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

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	
	2012	2011	2012	2011
Great Britain Pound (GBP)	5.949	5.678	5.820	5.900
United States Dollar (USD)	3.674	3.675	3.674	3.675
Euro (EUR)	4.873	4.757	4.720	5.128

Sensitivity analysis

A strengthening (weakening) of the AED, as indicated below, against the USD, EUR and GBP by 5% at 31 December would have increased (decreased) profit or loss by the amounts shown below. The analysis is based on foreign currency exchange variances that the Group considers to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignore any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2011.

	Strengthening		Weakening	
	Profit or loss	Equity	Profit or loss	Equity
	----- AED'000 -----			
31 December 2012				
GBP	7,475	-	(7,475)	-
USD	(51,437)	-	51,437	-
EURO	3,116	-	(3,116)	-
 31 December 2011				
GBP	5,026	-	(5,026)	-
USD	(3,920)	-	3,920	-
EURO	638	-	(638)	-

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

33 Financial instruments (continued)

Interest rate risk

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

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, whereby the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2012, after taking into account the effect of interest rate swaps, approximately 77% (2011: 41%) of the Group's term loans are at a fixed rate of interest.

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

	2012 AED'000	2011 AED'000
Fixed rate instruments		
<i>Financial assets</i>		
Fixed deposits	179,359	161,945
Margin deposits	3,271	3,303
Long term receivables from related parties	226,749	-
	=====	=====
<i>Financial liabilities</i>		
Bank borrowings	44,248	74,137
	=====	=====
Variable rate instruments		
<i>Financial assets</i>		
Due from related parties	64,327	54,145
	=====	=====
<i>Financial liabilities</i>		
Due to related parties	66,936	60,190
Bank borrowings	1,924,142	2,093,007
	=====	=====

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.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

33 Financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2011.

	Profit or loss	
	100 bp increase AED'000	100 bp decrease AED'000
31 December 2012		
Financial assets		
Variable rate instruments	592	(592)
	=====	=====
Financial liabilities		
Variable rate instruments	(18,735)	18,735
Interest rate swaps	9,330	(9,330)
	=====	=====
31 December 2011		
Financial assets		
Variable rate instruments	580	(580)
	=====	=====
Financial liabilities		
Variable rate instruments	(20,535)	20,535
Interest rate swaps	6,763	(6,763)
	=====	=====

Liquidity risk

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

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

33 Financial instruments (continued)

Liquidity risk (continued)

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

	Carrying amount AED'000	Contractual cash flows				
		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 2012						
<i>Non-derivative financial liabilities</i>						
Bank borrowings	1,968,390	2,011,113	430,496	856,242	668,237	56,138
Trade and other payables	853,815	853,815	329,636	524,179	-	-
Due to related parties	120,531	122,204	25,566	96,638	-	-
<i>Derivative financial liabilities</i>						
Interest rate swaps	5,087	851,047	47,454	518,897	284,696	-
Cross currency swaps	1,081	18,306	-	9,153	9,153	-
Forward foreign exchange contracts	44	29,745	-	29,745	-	-
	<u>2,948,948</u>	<u>3,886,230</u>	<u>833,152</u>	<u>2,034,854</u>	<u>962,086</u>	<u>56,138</u>
At 31 December 2011						
<i>Non-derivative financial liabilities</i>						
Bank borrowings	2,167,144	2,286,608	476,809	859,886	638,934	310,979
Trade and other payables	983,571	983,571	459,371	524,200	-	-
Due to related parties	73,574	74,115	90	74,025	-	-
<i>Derivative financial liabilities</i>						
Interest rate swaps	5,907	1,722	348	417	957	-
Cross currency swaps	60	3,163	-	794	1,994	375
Forward foreign exchange contracts	165	-	-	-	-	-
	<u>3,223,421</u>	<u>3,349,179</u>	<u>936,618</u>	<u>1,459,322</u>	<u>641,885</u>	<u>311,354</u>

Equity risk

The Group is not significantly exposed to equity price risk.

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 approximates their carrying values at the reporting date.

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

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 2012			
<i>Financial assets</i>			
Equity securities	101	-	-
<i>Financial liabilities</i>			
Derivative financial liabilities	-	(3,962)	-
	====	====	====
	101	(3,962)	-
	====	====	====
31 December 2011			
<i>Financial assets</i>			
Equity securities	145	-	-
<i>Financial liabilities</i>			
Derivative financial liabilities	-	(6,132)	-
	====	====	====
	145	(6,132)	-
	====	====	====

Capital management

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

The Group manages its capital structure and make adjustments to it in light of changes in business conditions. Capital comprises share capital, share premium reserve, capital reserve, legal reserve, translation reserve, general reserve and retained earnings and amounts to AED 2,26 million as at 31 December 2012 (2011: AED 2,24 million). The debt equity ratio at the reporting date was as follows:

	2012 AED'000	2011 AED'000
Equity	2,257,965	2,237,275
	====	====
Debt	1,968,390	2,167,144
	====	====
Debt equity ratio	0.87	0.97
	====	====

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

34 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:

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

* Refer note 16(ii)(b).

** Refer note 15(i).

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

34 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
<i>Year ended 31 December 2012</i>						
External revenue	2,757,959	242,375	74,792	93,008	-	3,168,134
Inter segment Revenue	403,455	21,494	86,920	159,681	(671,550)	-
Interest income	12,515	431	12	323	(3,587)	9,694
Interest expense	95,967	1,406	2,439	3,754	(3,587)	99,979
Depreciation and Amortisation	106,822	10,862	11,656	6,499	-	135,839
Share of profit of equity accounted investee	1,382	(4,928)	26,144	4,361	(2,264)	24,695
Reportable segment profit before tax	274,590	(23,830)	16,103	20,302	(41,026)	246,139
Reportable segment assets	6,232,302	576,667	404,162	401,522	(2,302,656)	5,311,997
Capital expenditure	103,951	3,489	4,339	49	-	111,828
Reportable segment liabilities	3,589,099	335,650	146,590	217,594	(1,234,902)	3,054,032
<i>Year ended 31 December 2011</i>						
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 income	17,498	304	2	418	(3,953)	14,269
Interest expense	103,658	1,276	4,847	4,908	(3,953)	110,736
Depreciation and amortisation	185,215	27,177	5,868	7,509	-	225,769
Share of profit of equity accounted investee	14,623	37,982	103,008	2,160	(812)	156,961
Reportable segment profit before tax	182,385	15,998	90,366	27,103	(92,297)	223,555
Reportable segment assets	5,760,935	749,938	388,232	501,536	(1,675,029)	5,725,612
Capital expenditure	100,660	8,553	4,012	21,395	-	134,620
Reportable segment liabilities	3,742,213	449,565	94,051	212,247	(1,009,739)	3,488,337

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

35 Significant accounting estimates and judgements (continued)

Impairment of goodwill

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

Impairment of property, plant and equipment and intangible assets

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

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

Current and deferred tax

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

35 Significant accounting estimates and judgements (continued)

Project stage of completion and cost to complete estimates

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

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

The Group estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and on the historical experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. The Group's management has carried out a review of the residual values and useful lives of property, plant and equipment and investment properties during the current year and certain revisions have been made. Refer note 13.

Fair valuation of investment properties

The Group follows the cost model under IAS 40 whereby investment property are stated at cost less accumulated depreciation and impairment losses, if any. Fair value of investment properties are disclosed in note 15 of the consolidated financial statements. The fair values for building have been determined taking into consideration the discounted cash flow revenues. Fair values for land have been determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties. Should the key assumptions change, the fair value of investment properties may significantly change and result in an impairment of the investment properties.

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

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

Ras Al Khaimah Ceramics PSC and its subsidiaries

Notes (continued)

34 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

	2012 AED'000	2011 AED'000
Middle East (ME)	1,525,316	1,697,569
Euro zone countries	422,892	467,674
Asian countries (other than ME)	802,101	673,299
Others	417,825	498,215
	<u>3,168,134</u>	<u>3,336,757</u>

Non-current assets

Middle East (ME)	1,247,902	1,311,840
Asian countries (Other than ME)	533,777	603,133
Others	120,508	146,625
	<u>1,902,187</u>	<u>2,061,598</u>

35 Significant accounting estimates and judgements

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

Revenue from construction contracts

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