

**Middle East Specialized Cables  
Company (MESC)  
(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2013**

Middle East Specialized Cables Company (MESC)  
(A Saudi Joint Stock Company)

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**CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2013

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
MIDDLE EAST SPECIALIZED CABLES COMPANY (MESC)  
(A SAUDI JOINT STOCK COMPANY)**

**Scope of audit**

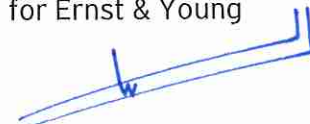
We have audited the accompanying consolidated balance sheet of Middle East Specialized Cables Company (MESC) (the "Company") - A Saudi Joint Stock Company - and its subsidiaries (the "Group") as at 31 December 2013 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with the provisions of Article 123 of Regulation for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

**Unqualified opinion**

In our opinion, the consolidated financial statements taken as a whole:

- i) present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2013 and the consolidated results of its operations and cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Company's bye-laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

  
Fahad M. Al-Toaimi  
Certified Public Accountant  
Registration No. 354



Riyadh: 23 Rabi Thani 1435H  
(23 February 2014)

Middle East Specialized Cables Company (MESC)  
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET

As at 31 December 2013

	Note	2013 SR	2012 SR
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Bank balances and cash	4	27,652,984	63,843,136
Held for trading investments	5	9,822,613	6,306,569
Accounts receivable	6	468,584,889	343,759,144
Prepaid expenses and other current assets	7	20,146,456	24,526,729
Inventories	8	254,866,691	267,463,046
<b>TOTAL CURRENT ASSETS</b>		<b>781,073,633</b>	<b>705,898,624</b>
<b>NON-CURRENT ASSETS</b>			
Available for sale investments	10	5,771,820	3,705,771
Investment in an associate	11	10,613,000	10,613,000
Property, plant and equipment	12	545,977,734	594,117,926
Intangible assets	13	7,046,186	2,521,892
Other long term assets	14	49,978,393	37,394,085
<b>TOTAL NON-CURRENT ASSETS</b>		<b>619,387,133</b>	<b>648,352,674</b>
<b>TOTAL ASSETS</b>		<b>1,400,460,766</b>	<b>1,354,251,298</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Bank borrowings and term loans	15	236,383,146	411,619,588
Accounts and notes payable		140,862,118	108,878,086
Accrued expenses and other current liabilities	16	57,235,716	69,897,085
<b>TOTAL CURRENT LIABILITIES</b>		<b>434,480,980</b>	<b>590,394,759</b>
<b>NON-CURRENT LIABILITIES</b>			
Term loans	15	438,660,201	450,479,169
Employees' terminal benefits		22,138,279	17,876,915
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>460,798,480</b>	<b>468,356,084</b>
<b>TOTAL LIABILITIES</b>		<b>895,279,460</b>	<b>1,058,750,843</b>
<b>EQUITY</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	18	600,000,000	400,000,000
Statutory reserve		28,985,180	28,985,180
Accumulated losses		(124,397,506)	(145,763,222)
Unrealized loss from revaluation of available for sale investments	10	(668,456)	(1,680,823)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>503,919,218</b>	<b>281,541,135</b>
<b>MINORITY INTERESTS</b>	24	<b>1,262,088</b>	<b>13,959,320</b>
<b>TOTAL EQUITY</b>		<b>505,181,306</b>	<b>295,500,455</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,400,460,766</b>	<b>1,354,251,298</b>

The attached notes 1 to 31 form part of these consolidated financial statements.

Middle East Specialized Cables Company (MESC)  
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013

	Note	2013 SR	2012 SR
Sales		930,730,922	990,580,978
Cost of sales		(784,827,189)	(829,421,456)
<b>GROSS PROFIT</b>		<b>145,903,733</b>	<b>161,159,522</b>
<b>EXPENSES</b>			
Selling and distribution	20	(35,056,604)	(36,818,921)
General and administrative	21	(36,437,500)	(43,721,621)
Cost of unutilized production capacity		(22,565,949)	(25,481,228)
Amortisation	13	(2,288,317)	(1,600,083)
<b>TOTAL EXPENSES</b>		<b>(96,348,370)</b>	<b>(107,621,853)</b>
<b>INCOME FROM MAIN OPERATIONS</b>		<b>49,555,363</b>	<b>53,537,669</b>
Unrealized gain (loss) from held for trading investments	5	3,516,044	(1,283,635)
Loss on derivative financial instruments	19	-	(4,962,440)
Financial charges	15	(41,456,444)	(41,347,681)
Other income, net	22	12,035,579	166,023
<b>INCOME BEFORE MINORITY INTERESTS, ZAKAT AND INCOME TAX</b>		<b>23,650,542</b>	<b>6,109,936</b>
Minority interests	24	13,750,931	23,536,677
<b>INCOME BEFORE ZAKAT AND INCOME TAX</b>		<b>37,401,473</b>	<b>29,646,613</b>
Zakat and income tax (provision) / recovery, net	17	(6,999,996)	1,453,981
<b>NET INCOME FOR THE YEAR</b>		<b>30,401,477</b>	<b>31,100,594</b>
<b>Earnings per share (SR):</b>	23		
<i>Attributable to:</i>			
Income from main operations		0.83	0.89
Net income for the year		0.51	0.52

The attached notes 1 to 31 form part of these consolidated financial statements.

Middle East Specialized Cables Company (MESC)  
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 SR	2012 SR
<b>OPERATING ACTIVITIES</b>		
Income before zakat and income tax	37,401,473	29,646,613
Adjustments to:		
Unrealized (gain) loss from revaluation of held for trading investments	(3,516,044)	1,283,635
Provision for doubtful debts (note 6)	5,719,300	2,790,808
Provision for slow moving inventories (note 8)	2,088,000	12,346,945
Depreciation and amortization (notes 12 and 13)	45,079,401	45,837,575
Gain on sale of property, plant and equipment (note 22)	(12,725,615)	-
Provision for employees' terminal benefits	6,780,089	5,087,090
Minority interests	(13,750,931)	(23,536,677)
	<u>67,075,673</u>	<u>73,455,989</u>
Changes in operating assets and liabilities:		
Accounts receivable	(143,129,353)	(15,141,351)
Prepaid expenses and other current assets	4,380,273	19,719,722
Inventories	10,508,355	25,848,014
Accounts and notes payable	31,984,032	(19,616,350)
Accrued expenses and other current liabilities	(18,404,160)	21,499,089
Cash (used in) from operations	<u>(47,585,180)</u>	<u>105,765,113</u>
Zakat and income tax paid	(1,257,195)	(1,599,918)
Employees' terminal benefits paid	(2,518,718)	(5,733,064)
Net cash (used in) from operating activities	<u>(51,361,093)</u>	<u>98,432,131</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from the sale of property, plant and equipment	40,063,235	-
Additions to property, plant and equipment	(21,988,512)	(29,678,158)
Intangible assets	(6,812,611)	(437,910)
Release of restricted cash (note 4)	3,366,000	-
Net cash from (used in) investing activities	<u>14,628,112</u>	<u>(30,116,068)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from the rights issue offering (note 18)	200,000,000	-
Costs of rights issue (note 18)	(9,035,761)	-
Repayments of bank borrowings and term loans, net	(187,055,410)	(33,825,111)
Net cash from (used in) financing activities	<u>3,908,829</u>	<u>(33,825,111)</u>
<b>(DECREASE) INCREASE IN BANK BALANCES AND CASH</b>	<u>(32,824,152)</u>	<u>34,490,952</u>
Cash and cash equivalent at the beginning of the year	<u>60,477,136</u>	<u>25,986,184</u>
<b>CASH AND CASH EQUIVALENT AT THE END OF THE YEAR (NOTE 4)</b>	<u><u>27,652,984</u></u>	<u><u>60,477,136</u></u>
<b>Non cash transactions:</b>		
Unrealized loss from revaluation of available for sale investments	1,012,367	(395,686)
Net movements in minority interests (note 24)	1,053,699	1,089,217
Transfer of advances against purchase of property, plant and equipment to property, plant and equipment (note 12)	-	5,503,800

The attached notes 1 to 31 form part of these consolidated financial statements.

Middle East Specialized Cables Company (MESC)  
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	<i>Shareholders' equity</i>						<i>Minority interests SR</i>	<i>Total equity SR</i>
	<i>Share capital SR</i>	<i>Statutory reserve SR</i>	<i>Accumulated losses SR</i>	<i>Unrealized loss from revaluation of available for sale investments SR</i>	<i>Net change in fair value of derivative financial instruments SR</i>	<i>Total SR</i>		
Balance at 31 December 2011	400,000,000	28,985,180	(176,863,816)	(1,285,137)	(8,329,270)	242,506,957	36,406,780	278,913,737
Net income for the year	-	-	31,100,594	-	-	31,100,594	-	31,100,594
Net movement during the year	-	-	-	-	-	-	(22,447,460)	(22,447,460)
Net change in fair value from:								
- revaluation of available for sale								
Investments	-	-	-	(395,686)	-	(395,686)	-	(395,686)
- derivatives financial instruments	-	-	-	-	8,329,270	8,329,270	-	8,329,270
Balance at 31 December 2012	400,000,000	28,985,180	(145,763,222)	(1,680,823)	-	281,541,135	13,959,320	295,500,455
Net income for the year	-	-	30,401,477	-	-	30,401,477	-	30,401,477
Proceeds from the rights issue offering (note 18)	200,000,000	-	-	-	-	200,000,000	-	200,000,000
Costs of rights issue (note 18)	-	-	(9,035,761)	-	-	(9,035,761)	-	(9,035,761)
Net movement during the year	-	-	-	-	-	-	(12,697,232)	(12,697,232)
Net change in fair value from revaluation of available for sale investments	-	-	-	1,012,367	-	1,012,367	-	1,012,367
<b>Balance at 31 December 2013</b>	<b>600,000,000</b>	<b>28,985,180</b>	<b>(124,397,506)</b>	<b>(668,456)</b>	<b>-</b>	<b>503,919,218</b>	<b>1,262,088</b>	<b>505,181,306</b>

The attached notes 1 to 31 form part of these consolidated financial statements.

# Middle East Specialized Cables Company (MESC)

## (A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

#### 1 ACTIVITIES

Middle East Specialized Cables Company (“MESC”) (the “Company”) is a Saudi Joint Stock Company registered in Riyadh, Kingdom of Saudi Arabia, under commercial registration number 1010102402 dated 10 Jumada Awal 1413H (corresponding to 4 November 1992).

The Company and its subsidiaries (the “Group”) are engaged in the production and sale of flexible electric, coaxial, rubber and nylon coated wires and cables, telephone cables for internal extensions, computer cables, safety and anti-fire wires and cables and control and transmission of information cables.

The following are the subsidiaries included in the consolidated financial statements:

Subsidiary	Current Ownership %		Country of Incorporation
	2013	2012	
Middle East Specialised Cables Company - Jordan (i)	49.0	49.0	Kingdom of Jordan
MESC for Medium and High Voltage Cables Company (Formerly MESC Fujikura Cable Company) *	69.14	69.14	Kingdom of Jordan
MESC - Ras Al-Khaimah (Limited Liability Company) (ii)	100.0	100.0	United Arab Emirates
Sharjah Cables Factory (a sole proprietorship) (ii)	-	100.0	United Arab Emirates

\*Direct and indirect ownership through its subsidiary, Middle East Specialized Cables Company – Jordan.

- (i) During 2012, the Company’s board of directors has approved the management’s recommendation to designate a mutual fund for the benefit of its subsidiary employees, and that by a decrease of the Company’s owned shares in the subsidiary from 53.7 % to 49%. The Company transferred the ownership to the fund’s benefit at net book value (note 14).
- (ii) During 2012, the Company’s board of directors decided to merge the operations of Sharjah Cables Factory with the operations of MESC - Ras Al Khaimah, effective 1 April 2012. Accordingly, all the assets and liabilities of Sharjah Cables Factory have been transferred to MESC - Ras Al Khaimah. As the two entities fully owned by MESC, therefore there was no impact on the consolidated financial statements.

#### 2 BASIS OF CONSOLIDATION

The consolidated financial statements include the assets, liabilities and the results of operations of the Company and its subsidiaries (the “Group”) listed in note (1) above.

A subsidiary is a company in which the Group has, directly or indirectly, long term investment comprising an interest of more than 50% in the voting capital or over which it exerts a practical control. A subsidiary company is consolidated from the date on which the Group obtains a practical control until the date such control ceases. Minority interest has been calculated and reflected separately in the consolidated balance sheet and consolidated statement of income. Significant balances and transactions between the Group companies have been eliminated in the consolidated financial statements.

#### 3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies, applied consistently, are as follows:

##### *Accounting convention*

These consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value for held for trading investments, available for sale investments and derivative financial instruments.



Middle East Specialized Cables Company (MESC)  
(A Saudi Joint Stock Company)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2013

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Use of estimates*

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

*Accounts receivable*

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

*Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost is determined for finished goods on a weighted average cost basis and includes cost of material, labor and appropriate proportion of direct overheads. All other inventories are valued on a weighted average cost basis.

*Investments*

*Held for trading investments*

Held for trading investments are investments in readily marketable securities, which are bought for trading purposes, are stated at fair value and included under current assets. Changes in market value are credited or charged to the consolidated statement of income.

*Available for sale investments*

Investments that are bought neither with the intention of being held to maturity nor for the trading purposes, are stated at fair value and are included under non-current assets, unless they will be sold in the next fiscal year. Unrealized gains and losses are reported as a separate component of shareholders' equity until the investment is derecognized or the investment is determined to be impaired.

Fair value is determined by reference to the market value if an open market exists, or the use of other alternative method. Otherwise, cost is considered to be the fair value. Where partial holdings are sold, these are accounted for on a weighted average basis.

*Investment in an associate*

Associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, investments in associate are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. The consolidated statement of income reflects the Group's share in the results of associates.

*Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land and capital work in progress are not depreciated. The cost less estimated residual value of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure for repair and maintenance are charged to the consolidated statement of income. Betterments that increase the value or materially extend the life of the related assets are capitalized.

Middle East Specialized Cables Company (MESC)  
(A Saudi Joint Stock Company)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2013

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Intangible assets***

License fee, SIDF loans management fee, loans restructuring fees and development costs relating to information systems are deferred and amortized over an estimated period of benefit up to a maximum of six years.

***Impairment***

The Group periodically reviews the carrying amounts of its long term tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment is recognized in the consolidated statement of income.

Except for goodwill, where impairment subsequently reverses, the carrying amount of the asset or the cash generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognized for the asset or cash generating unit in prior years. A reversal of impairment is recognized immediately in the consolidated statement of income.

***Provisions***

Provisions are recognized when an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably by the Group.

***Accruals***

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

***Employees' terminal benefits***

Provision is made for amounts payable under the Saudi Arabian, Jordanian and United Arab Emirates' Labour Law applicable to employees' accumulated periods of service at the balance sheet date.

***Zakat and income tax***

Zakat is provided in accordance with the Regulations of the Department of Zakat and Income Tax (DZIT) in the Kingdom of Saudi Arabia and on an accrual basis. The provision is charged to the consolidated statement of income. Differences, if any, including recoveries resulting from the final assessments are adjusted in the year of their finalization.

For subsidiaries outside the Kingdom of Saudi Arabia, provision for corporate tax is computed in accordance with tax regulations of the respective countries.

***Statutory reserve***

In accordance with the Saudi Arabian Regulations for Companies, the Company must set aside 10% of the income (after deducting losses brought forward) in each year until it has been build up reserve equal to one half of the capital. In view of accumulated loss incurred, no such transfers have been made. The reserve is not available for distribution.

***Revenue recognition***

Sales are recognized upon delivery of goods to customers and are stated net of trade or quantity discounts.

Middle East Specialized Cables Company (MESC)  
(A Saudi Joint Stock Company)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2013

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Expenses***

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Company's products.

General and administrative expenses include direct and indirect costs not specifically part of production costs as required under generally accepted accounting principles. Allocations between general and administrative expenses and cost of sales, when required, are made on a consistent basis.

***Derivative Financial Instruments***

The Group uses derivative financial instruments such as cash settled forward commodity (metal) contracts to hedge its commodity price risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are reported as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of a cash flow hedge, are taken directly to the consolidated statement of income.

For the purpose of hedge accounting, the Group's cash settled forward commodity contracts are classified as cash flow hedges, as the Group is hedging exposure to variability in cash flows that is attributable to the commodity price risks associated with a highly probable forecast transaction.

***Foreign currencies***

The consolidated financial statements are presented in Saudi Riyal, which is the Company's functional and presentation currency. Each subsidiary in the Group determines its own functional currency, and as a result, items included in the financial statements of each subsidiary are measured using that functional currency.

At the subsidiary level, transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

At the consolidation level, financial statements of foreign subsidiaries are translated into the presentation currency of the Company (Saudi Riyals) using the exchange rate at each balance sheet date for assets and liabilities, and the average exchange rate for each period for revenues and expenses. Components of equity, other than retained earnings, are translated at the exchange rate ruling at the date of occurrence of each component. Translation adjustments are recorded as a separate component of equity.

***Segmental reporting***

A segment is a distinguishable component of the Group that is engaged either in providing products or services (a business segment) or in providing products or services within a particular economic environment (a geographic segment), which is subject to risks and rewards that are different from those of other segments.

Middle East Specialized Cables Company (MESC)  
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2013

**4 BANK BALANCES AND CASH**

	2013 SR	2012 SR
Bank balances	27,198,524	63,611,571
Cash in hand	454,460	231,565
	<u>27,652,984</u>	<u>63,843,136</u>
Bank balances and cash	27,652,984	63,843,136
Less: restricted cash	-	(3,366,000)
	<u>27,652,984</u>	<u>60,477,136</u>
Cash and cash equivalent	<u>27,652,984</u>	<u>60,477,136</u>

As of 31 December 2012, bank balances and cash included a restricted cash of SR 3.3 million, which was related to a lawsuit filed by a supplier against a subsidiary claiming the payment of an outstanding payable, which was due in 2010. Based on a court order, an amount of SR 3.3 million was considered as restricted cash. During the year ended 31 December 2013, the case was closed and the liability has been settled.

**5 HELD FOR TRADING INVESTMENTS**

These comprise of investments in equity shares listed on an international stock exchange market and denominated in Jordanian Dinar, and are carried at fair value:

	2013 SR	2012 SR
At the beginning of the year	6,306,569	7,590,204
Net change in unrealized gain (loss) from revaluation	3,516,044	(1,283,635)
	<u>9,822,613</u>	<u>6,306,569</u>
At the end of the year	<u>9,822,613</u>	<u>6,306,569</u>

**6 ACCOUNTS RECEIVABLE**

	2013 SR	2012 SR
Trade receivables	502,075,703	372,627,799
Less: provision for doubtful debts	(34,679,369)	(30,016,718)
	<u>467,396,334</u>	<u>342,611,081</u>
Retentions receivable	49,835,765	37,210,965
Less: non-current portion (note 14)	(48,647,210)	(36,062,902)
	<u>1,188,555</u>	<u>1,148,063</u>
Retentions receivable – current	<u>1,188,555</u>	<u>1,148,063</u>
	<u>468,584,889</u>	<u>343,759,144</u>

As at 31 December 2013, trade receivables at nominal value of SR 34,679,369 (2012: SR 30,016,718) were impaired.

Middle East Specialized Cables Company (MESC)  
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2013

**6 ACCOUNTS RECEIVABLE - continued**

Movement in the provision for impairment of trade receivable was as follows:

	2013 SR	2012 SR
At the beginning of the year	30,016,718	27,225,910
Additions during the year (note 20)	5,719,300	2,790,808
Amounts written off during the year	(1,056,649)	-
At the end of the year	<u>34,679,369</u>	<u>30,016,718</u>

**7 PREPAID EXPENSES AND OTHER CURRENT ASSETS**

	2013 SR	2012 SR
Advances to suppliers	8,542,643	11,877,139
Margin deposits	3,742,021	6,571,657
Prepaid expenses	4,525,041	3,295,719
Insurance receivable	579,606	580,984
Other current assets	2,757,145	2,201,230
	<u>20,146,456</u>	<u>24,526,729</u>

**8 INVENTORIES**

	2013 SR	2012 SR
Finished goods	107,443,660	94,354,230
Raw and packing materials	101,498,889	126,234,319
Work in progress	32,960,003	46,653,840
Spare parts	19,082,910	17,235,801
Goods in transit	19,307,447	15,209,637
	<u>280,292,909</u>	<u>299,687,827</u>
Less: provision of slow moving inventories	<u>(25,426,218)</u>	<u>(32,224,781)</u>
	<u>254,866,691</u>	<u>267,463,046</u>

Movement in the provision of slow moving inventories was as follows:

	2013 SR	2012 SR
At the beginning of the year	32,224,781	19,877,836
Charge for the year	2,088,000	12,346,945
Written off during the year	(8,886,563)	-
At the end of the year	<u>25,426,218</u>	<u>32,224,781</u>

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**9 RELATED PARTY TRANSACTIONS**

The following are the details of major related party transactions during the year:

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction</i>	
		<b>2013</b>	<b>2012</b>
		<b>SR</b>	<b>SR</b>
Affiliates	Sales	<b>1,057,334</b>	1,833,789
	Purchases	<b>2,200,952</b>	3,297,847
Board of Directors, Committees and Senior personnel	Allowances, expenses, salaries and benefits	<b>11,983,855</b>	12,406,823

Amounts due to related parties are shown in note 16.

**10 AVAILABLE FOR SALE INVESTMENTS**

Available for sale investments (AFS) comprise of investments in quoted securities, all are denominated in Jordanian Dinar. The movement is set out below:

	<b>2013</b>	<b>2012</b>
	<b>SR</b>	<b>SR</b>
<i>Cost:</i>		
At the beginning and end of the year	<b>6,854,114</b>	6,854,114
<i>Unrealized losses:</i>		
At the beginning of the year	<b>(3,148,343)</b>	(2,394,071)
Net movement during the year	<b>2,066,049</b>	(754,272)
At the end of the year (*)	<b>(1,082,294)</b>	(3,148,343)
<i>Net carrying amount</i>	<b>5,771,820</b>	3,705,771

(\*) The unrealized loss from AFS shown in the consolidated balance sheet represents the Group's share of unrealised losses reduced by the minority interests share of SR 413,838 (2012: SR 1,467,520).

**11 INVESTMENT IN AN ASSOCIATE**

Investment in an associate represents direct equity investment in Juba Investment and Development Company (JIDC) which is a limited liability company registered in the kingdom of Jordan.

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**12 PROPERTY, PLANT AND EQUIPMENT**

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	10 - 25 years		Furniture, fixtures and office equipment				4 - 10 years	
Plant and machinery	4-15 years		Motor vehicles				4 - 10 years	
	<i>Land</i> SR	<i>Buildings*</i> SR	<i>Plant and machinery</i> SR	<i>Furniture, Fixtures and office equipment</i> SR	<i>Motor vehicles</i> SR	<i>Capital work in progress</i> SR	<b><i>Total</i> 2013 SR</b>	<b><i>Total</i> 2012 SR</b>
<b>Cost:</b>								
At the beginning of the year	45,419,290	235,725,573	606,697,967	23,828,339	16,407,640	14,300,201	<b>942,379,010</b>	908,269,644
Additions	-	1,124,000	1,797,769	494,296	55,800	18,516,647	<b>21,988,512</b>	35,181,958
Transfer	-	358,627	31,107,411	22,121	-	(31,488,159)	-	-
Disposal	(26,259,560)	(1,332,953)	(282,025)	(183,262)	(100,737)	-	<b>(28,158,537)</b>	(1,072,592)
At the end of the year	<u>19,159,730</u>	<u>235,875,247</u>	<u>639,321,122</u>	<u>24,161,494</u>	<u>16,362,703</u>	<u>1,328,689</u>	<b><u>936,208,985</u></b>	<u>942,379,010</u>
<b>Depreciation:</b>								
At the beginning of the year	-	60,558,429	255,974,189	18,039,841	13,688,625	-	<b>348,261,084</b>	305,096,180
Charge for the year	-	11,655,064	28,437,264	1,802,110	896,646	-	<b>42,791,084</b>	44,237,492
Disposals	-	(321,773)	(215,145)	(183,262)	(100,737)	-	<b>(820,917)</b>	(1,072,588)
At the end of the year	<u>-</u>	<u>71,891,720</u>	<u>284,196,308</u>	<u>19,658,689</u>	<u>14,484,534</u>	<u>-</u>	<b><u>390,231,251</u></b>	<u>348,261,084</u>
Net book amounts:								
<b>At 31 December 2013</b>	<b><u>19,159,730</u></b>	<b><u>163,983,527</u></b>	<b><u>355,124,814</u></b>	<b><u>4,502,805</u></b>	<b><u>1,878,169</u></b>	<b><u>1,328,689</u></b>	<b><u>545,977,734</u></b>	
At 31 December 2012	<u>45,419,290</u>	<u>175,167,144</u>	<u>350,723,778</u>	<u>5,788,498</u>	<u>2,719,015</u>	<u>14,300,201</u>		<u>594,117,926</u>

\* Buildings include a factory building with a net book value of SR 51 million (2012: SR 54 million) constructed on a land leased from the Government of Saudi Arabia at a nominal rent. This lease expires on 7 Rabi Awal 1439H (corresponding to 25 November 2017). The renewal of the lease is at the option of the Company.

Property, plant and equipment, except land, with a net book value of SR 138 million (2012: SR 146 million) are mortgaged to Saudi Industrial Development Fund (SIDF) as a security against loans. (Note 15).

During 2012, there was a change in the estimated useful life of the production machineries of a subsidiary, where the useful lives of these machineries were extended from 15 to 30 years. This was considered by the Group as a change in estimate. This change was accounted for prospectively and resulted in an increase in the net income for the year 2013 by SR 8 million (2012: SR 6 million). This change is expected to have a similar impact on the future annual results of the Group until the end of the original estimated useful life.

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**12 PROPERTY, PLANT AND EQUIPMENT (continued)**

Depreciation charge for the year is allocated as follows:

	2013 SR	2012 SR
Cost of sales	37,007,956	36,157,084
Cost of unutilized production capacity	4,312,167	6,789,965
General and administrative expenses (note 21)	1,470,961	1,290,443
	<u>42,791,084</u>	<u>44,237,492</u>

**13 INTANGIBLE ASSETS**

Intangible assets represent license fee, SIDF loans management fee, loans restructuring fees and development costs relating to the information systems. These are deferred and amortized over an estimated period of benefit up to a maximum of six years.

Movement in the intangible assets were as follow:

	2013 SR	2012 SR
At the beginning of the year	2,521,892	3,684,064
Additions during the year	6,812,611	437,911
Amortization during the year	(2,288,317)	(1,600,083)
At the end of the year	<u>7,046,186</u>	<u>2,521,892</u>

**14 OTHER LONG TERM ASSETS**

	2013 SR	2012 SR
Retentions receivable – non-current (note 6)	48,647,210	36,062,902
Employees' fund (note 1 (i))	1,331,183	1,331,183
	<u>49,978,393</u>	<u>37,394,085</u>

**15 BANK BORROWINGS AND TERM LOANS**

	2013 SR	2012 SR
<b>Current: (a)</b>		
Murabaha loans	44,085,376	127,846,217
Short term loans and bank overdrafts	87,068,237	124,394,163
	<u>131,153,613</u>	<u>252,240,380</u>
Current portion of term loans	105,229,533	159,379,208
	<u>236,383,146</u>	<u>411,619,588</u>
<b>Non - current: (b)</b>		
Term loans	438,660,201	450,479,169
	<u>675,043,347</u>	<u>862,098,757</u>



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**15 BANK BORROWINGS AND TERM LOANS - continued**

- (a) The Company has entered into purchase financing agreements (Murabaha) with various local commercial banks which purchase goods on behalf of the Company and resells them to the Company on an extended credit up to a maximum period of 12 months from the date of purchase by the Company. Murabaha loans are fully secured by duly signed promissory notes.

Murabaha agreements contain covenants regarding certain leverage ratios, gearing ratio, total debt to equity ratio, minimum tangible net worth and maximum receivables from related parties. Under the terms of these agreements, banks have the right to demand immediate repayment of the loans if any of the covenants are not met.

Short term loans are obtained by a subsidiary and are secured by its own corporate guarantee and are obtained to finance its operations.

- (b) Term loans were obtained to finance the Group's operations. The installments due in next twelve months period are shown as a current liability.

During 2013, the subsidiaries in Jordan have rescheduled part of their short term loans of SR 64 million (2012: SR 49 million) to long term loans. The long term loans for the subsidiaries are secured by its own corporate guarantee. The outstanding balance of long term loans as of 31 December 2013 is SR 223 million. (2012: SR 198.8 million).

In-addition, the Company obtained several long term loans from the Saudi Industrial Development Fund (SIDF) and are secured by mortgage over the property, plant and equipment of the Company (note 12). It is repayable in semi-annual installments and the last installment will be due on Shawwal 15, 1440H (corresponding to 15 June 2019). The long term loans agreements contain covenants which, among other things, require that certain financial ratios and a ceiling on capital expenditures be maintained. Under the terms of the loans agreements, the lender has the right to demand immediate repayments if such covenants are not met.

The Group has unutilized bank facilities amounting to SR 75.1 million (2012: SR 26.2 million) from local commercial banks in the Kingdom of Saudi Arabia for Murabaha loans, bank overdraft and other credit lines. Commission on these facilities is payable at varying rates.

The Group has unutilized bank facilities amounting to SR 40 million (2012: SR 52.4 million) from local commercial banks in Jordan and United Arab Emirates for loans, bank overdraft and other credit lines. Commission on these facilities is payable at varying rates.

During the year ended 31 December 2013, the Company signed a restructuring agreement (the "agreement") with its current local bankers to restructure its short term loans. Accordingly, the Company has reported as of 31 December 2013 and 2012, the balances relating to bank borrowings and term loans based on the agreement.

**16 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	2013 SR	2012 SR
Accrued expenses	20,015,705	29,881,987
Advances from customers	13,727,676	20,260,423
Zakat payable (note 17)	11,153,201	5,410,400
Amounts due to related parties (note 9)	3,533,096	2,306,373
Other current liabilities	8,806,038	12,037,902
	<u>57,235,716</u>	<u>69,897,085</u>

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**17 ZAKAT AND INCOME TAX**

Zakat is provided for and charged to the consolidated statement of income. Differences resulting from the final Zakat calculation, including recoveries, if any are adjusted at year end.

**Charge for the year consists of:**

	2013 SR	2012 SR
Zakat provision / (recovery), net	6,999,996	(2,000,000)
Foreign income tax provision	-	546,019
	<u>6,999,996</u>	<u>(1,453,981)</u>
Provision / (recovery) for the year	<u>6,999,996</u>	<u>(1,453,981)</u>

The movement in zakat provision for the year is as follows:

	2013 SR	2012 SR
At the beginning of the year	5,410,400	9,010,318
Provided during the year	6,999,996	4,000,000
Reversed during the year (a)	-	(6,000,000)
Paid during the year	(1,257,195)	(1,599,918)
	<u>11,153,201</u>	<u>5,410,400</u>
At end of the year	<u>11,153,201</u>	<u>5,410,400</u>

(a) In previous years, the Company received the Zakat assessments from the Department of Zakat and Income Tax (DZIT) for the years ended 31 December 2006 and 2007. As per these assessments, the Company was required to pay an additional Zakat liability amounting to SR 13.4 Million. The Company has filed an objection with the Preliminary Objection Committee in this regard and also provided for such additional liability.

During the year ended 31 December 2011, the Company received the revised and final Zakat assessments from (DZIT) for the years 2006 and 2007, which indicate an additional Zakat liability of SR 2.5 Million only, rather than SR 13.4 M. Accordingly, the Company has reversed the excess Zakat provision of SR 10.9 million. During 2012, the Company reviewed its Zakat liability using the same basis as the one adopted in finalizing the Zakat assessments with the DZIT for the previous years, and as a result, the excess Zakat provision was reversed.

The Company has filed its zakat returns for prior years up to the year ended 31 December 2012 and has obtained the final Zakat assessments up to the year ended 31 December 2007.

**18 SHARE CAPITAL**

The Company's share capital is divided into 60 million shares as of 31 December 2013 (31 December 2012: 40 million shares) of SR 10 each.

The shareholders in their Extraordinary General Assembly meeting held on 20 Shawwal 1434 (corresponding to 27 August 2013) approved the Company's Board of Directors' recommendation to increase the share capital of the Company from SR 400 million to SR 600 million by offering a rights issue of SR 200 million.

During the year ended 31 December 2013, the Company completed the rights issue offering and received the proceeds from the offering. The rights issue related costs of SR 9,035,761 have been charged to equity.

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**19 DERIVATIVES FINANCIAL INSTRUMENTS**

In 2012, the Group used derivative financial instruments, such as cash settled forward commodity (metal) contracts to hedge its commodity price risks, which were classified as cash flow hedges. The Group was hedging exposure to variability in cash flows that is attributable to the commodity price risk associated with a highly probable forecast transaction.

The realized loss during the year ended 31 December 2013 that relates to the cash flow hedge transactions amounted to SR nil (31 December 2012: SR 4,962,440). Such derivative contracts were terminated in 2012.

**20 SELLING AND DISTRIBUTION EXPENSES**

	<b>2013</b>	<b>2012</b>
	<b>SR</b>	<b>SR</b>
Salaries and related costs	<b>13,121,831</b>	14,206,869
Promotion and advertising	<b>5,842,115</b>	10,760,889
Freight	<b>5,211,865</b>	6,036,768
Provision for doubtful debts (note 6)	<b>5,719,300</b>	2,790,808
Travel	<b>957,694</b>	766,579
Rent	<b>595,709</b>	536,023
Others	<b>3,608,090</b>	1,720,985
	<b><u>35,056,604</u></b>	<b><u>36,818,921</u></b>

**21 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2013</b>	<b>2012</b>
	<b>SR</b>	<b>SR</b>
Salaries and related costs	<b>25,876,468</b>	28,844,857
Consultancy and professional fees	<b>2,791,376</b>	5,088,812
Depreciation (note 12)	<b>1,470,961</b>	1,290,443
Repairs and maintenance	<b>1,200,892</b>	1,063,487
Utilities	<b>948,301</b>	949,090
Travel	<b>867,468</b>	798,341
Other	<b>3,282,034</b>	5,686,591
	<b><u>36,437,500</u></b>	<b><u>43,721,621</u></b>

**22 OTHER INCOME, NET**

	<b>2013</b>	<b>2012</b>
	<b>SR</b>	<b>SR</b>
Gain from sale of property, plant and equipment	<b>12,725,615</b>	-
Other (expense) income, net	<b><u>(690,036)</u></b>	<u>166,023</u>
	<b><u>12,035,579</u></b>	<b><u>166,023</u></b>

**23 EARNINGS PER SHARE**

Earnings per share attributable to income from main operations and net income for the year are calculated by dividing income from main operations and net income for the year, respectively, by the number of shares outstanding of 60 million as at 31 December 2013. Earnings per share for the comparative year have been adjusted retrospectively, to reflect the impact of the right's issue offering (note 18).

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**24 MINORITY INTERESTS**

Movement in the minority interests were as follow:

	2013 SR	2012 SR
At the beginning of the year	13,959,320	36,406,780
Share in net losses from the subsidiaries during the year	(13,750,931)	(23,536,677)
Other movements	1,053,699	1,089,217
At the end of the year	<u>1,262,088</u>	<u>13,959,320</u>

**25 COMMITMENT AND CONTINGENCIES**

As at 31 December 2013, the Group has capital commitments at SR 17.2 million (2012: SR 16 million)

At 31 December 2013, the Group's bankers have issued on its behalf bank guarantees amounting to SR 199 million (2012: SR 183 million), in the normal course of business.

**26 OPERATING LEASES**

The Group has various renewable operating leases for employees housing, office facilities, showrooms and warehouses having different terms extending between one and ten years. Rental expenses incurred during year ended 31 December 2013 under leases were approximately SR 2.3 million (2012 - SR 2 million).

**27 SEGMENT INFORMATION**

The Group's operations are carried out in three principal geographical areas, which are considered as reporting segments. Following are the segments of the Group:

**Saudi Arabia**

This consists of operations carried out through Middle East Specialized Cables Company (MESC) – Saudi Arabia.

**Hashemite Kingdom of Jordan**

This consists of operations carried out through Middle East Specialized Cables Company – Jordan and MESC for Medium and High Voltage Cables Company.

**United Arab Emirates**

This consists of operations carried out through Sharjah Cables Factory and MESC - Ras Al-Khaimah (Limited Liability Company).

The total assets and total liabilities as at 31 December 2013 and 2012, total revenues, gross profit and net income (loss) for the two years then ended, by segment, are as follows:

31 December 2013	Segment				Total SR
	Saudi Arabia SR	Jordan SR	United Arab Emirates SR	Eliminations	
Sales	758,681,783	242,400,826	171,582,256	(241,933,943)	930,730,922
Gross profit	107,910,129	15,122,505	22,871,099	-	145,903,733
Net income (loss)	30,401,486	(40,203,341)	9,891,154	30,312,178	30,401,477
Total assets	968,929,023	451,051,092	373,357,777	(392,877,126)	1,400,460,766
Total liabilities	465,009,800	389,840,808	143,772,446	(103,343,594)	895,279,460

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**27 SEGMENT INFORMATION - continued**

31 December 2012	Segment				Total SR
	Saudi Arabia SR	Jordan SR	United Arab Emirates SR	Eliminations	
Sales	763,528,975	222,859,109	176,652,315	(172,459,421)	990,580,978
Gross profit	139,193,374	4,172,952	17,793,196	-	161,159,522
Net income (loss)	31,100,586	(62,087,056)	7,954,936	54,132,128	31,100,594
Total assets	930,190,366	452,073,719	334,756,818	(362,769,605)	1,354,251,298
Total liabilities	648,649,239	352,726,181	158,964,172	(101,588,749)	1,058,750,843

**28 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. Financial instruments comprise of financial assets and financial liabilities. The Group's financial assets consist of bank balances and cash, receivables and investments in securities and its financial liabilities consist of bank borrowing and term loans, payables, accrued expenses and certain other liabilities.

The fair values of financial instruments are not materially different from their carrying values.

**29 RISK MANAGEMENT**

**Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. The Group is subject to normal interest rate risk on its interest bearing assets and liabilities, including short term loans, Murabaha loans and long term loans.

**Credit risk**

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to counter-parties by setting credit limits for individual parties and by monitoring outstanding exposures. At the balance sheet date, no significant concentrations of credit risk were identified by management.

**Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group uses foreign currencies, mainly US Dollar, UAE Dirham, Jordanian Dinar and Euro. The Group is not exposed to significant currency risk as the Saudi Riyal is pegged to the US Dollar, balances in other currencies are not considered to represent significant currency risk.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Group manages its liquidity risk by ensuring that bank facilities are available.

**30 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The Board of Directors has approved the consolidated financial statements on 23 February 2014.

**31 COMPARATIVE FIGURES**

Certain prior year figures have been re-classified to conform with the presentation in the current year.