

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

**UNAUDITED INTERIM CONSOLIDATED FINANCIAL
STATEMENTS - AND LIMITED REVIEW REPORT**

FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS – (UNAUDITED)

For the six months period ended 30 June 2014

INDEX	PAGE
Auditors' Limited Review Report	1
Interim Consolidated Balance Sheet	2
Interim Consolidated Statement of Income	3
Interim Consolidated Statement of Cash Flows	4
Notes to the Interim Consolidated Financial Statements	5 – 10

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

Scope of review

We have reviewed the accompanying interim consolidated balance sheet of Middle East Specialized Cables Company (MESC) (the "Company") - A Saudi Joint Stock Company - and its subsidiaries (the "Group") as at 30 June 2014 and the related interim consolidated statements of income for the three and six month periods then ended and related interim consolidated statement of cash flows for the six months period then ended. These interim consolidated financial statements are the responsibility of the Group's management and have been prepared by them and submitted to us together with all the information and explanations which we required. We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A limited review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young



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



Riyadh: 24 Ramadan 1435
(21 July 2014)

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

INTERIM CONSOLIDATED BALANCE SHEET – (UNAUDITED)

As at 30 June 2014

	Note	30 June 2014 SR	30 June 2013 SR
ASSETS			
CURRENT ASSETS			
Bank balances and cash		19,182,853	86,731,751
Held for trading investments		313,564	6,691,654
Accounts receivable		513,501,110	384,563,067
Prepaid expenses and other current assets		31,842,395	32,588,575
Inventories		255,553,789	195,631,490
TOTAL CURRENT ASSETS		820,393,711	706,206,537
NON-CURRENT ASSETS			
Available for sale investments		6,507,719	3,932,051
Investment in an associate		10,613,000	10,613,000
Property, plant and equipment		527,435,200	592,241,840
Intangible assets		8,885,497	7,818,266
Other long term assets		44,216,996	45,974,214
TOTAL NON-CURRENT ASSETS		597,658,412	660,579,371
TOTAL ASSETS		1,418,052,123	1,366,785,908
LIABILITIES AND EQUITY			
LIABILITIES			
CURRENT LIABILITIES			
Bank borrowings and current term loans	4	191,775,864	370,687,419
Accounts and notes payable		179,440,208	110,414,385
Accrued expenses and other current liabilities		65,796,084	78,276,632
TOTAL CURRENT LIABILITIES		437,012,156	559,378,436
NON-CURRENT LIABILITIES			
Term loans	4	455,814,059	487,977,401
Employees' terminal benefits		23,304,694	19,712,279
TOTAL NON-CURRENT LIABILITIES		479,118,753	507,689,680
TOTAL LIABILITIES		916,130,909	1,067,068,116
EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	6	600,000,000	400,000,000
Statutory reserve		28,985,180	28,985,180
Accumulated losses		(122,041,928)	(132,371,360)
Unrealized loss from revaluation of available for sale investments		(307,864)	(1,569,937)
TOTAL SHAREHOLDERS' EQUITY		506,635,388	295,043,883
Minority interests		(4,714,174)	4,673,909
TOTAL EQUITY		501,921,214	299,717,792
TOTAL LIABILITIES AND EQUITY		1,418,052,123	1,366,785,908

The attached notes 1 to 13 form part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENTS OF INCOME – (UNAUDITED)

For the three and six months period ended 30 June 2014

	<i>Note</i>	<i>For the three months period ended 30 June</i>		<i>For the six months period ended 30 June</i>	
		<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
		<i>SR</i>	<i>SR</i>	<i>SR</i>	<i>SR</i>
Sales		269,783,889	228,045,158	479,332,798	455,459,690
Cost of sales		(229,054,346)	(196,089,520)	(416,307,100)	(376,777,021)
GROSS PROFIT		40,729,543	31,955,638	63,025,698	78,682,669
EXPENSES					
Selling and distribution		(8,736,200)	(7,585,144)	(16,530,088)	(15,351,951)
General and administrative		(9,011,759)	(10,266,544)	(17,858,411)	(21,057,652)
Cost of unutilized production capacity		(4,513,227)	(6,018,174)	(11,419,308)	(12,411,736)
Amortisation		(621,697)	(396,324)	(1,244,524)	(755,599)
TOTAL EXPENSES		(22,882,883)	(24,266,186)	(47,052,331)	(49,576,938)
INCOME FROM OPERATIONS		17,846,660	7,689,452	15,973,367	29,105,731
Financial charges	4	(7,922,968)	(10,893,464)	(17,000,461)	(21,222,976)
Other income (expenses), net		299,141	(97,784)	1,981,111	(391,708)
INCOME (LOSS) BEFORE MINORITY INTERESTS, ZAKAT AND INCOME TAX		10,222,833	(3,301,796)	954,017	7,491,047
Minority interests		1,442,049	5,068,638	6,351,563	9,400,820
INCOME BEFORE ZAKAT AND INCOME TAX		11,664,882	1,766,842	7,305,580	16,891,867
Zakat and income tax provision	5	(1,475,000)	(1,749,999)	(4,950,000)	(3,499,998)
NET INCOME FOR THE PERIOD		10,189,882	16,843	2,355,580	13,391,869
Earnings per share (SR):	7				
<i>Attributable to:</i>					
Income from operations		0.30	0.13	0.27	0.49
Net income for the period		0.17	0.00	0.04	0.22

The attached notes 1 to 13 form part of these interim consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS – (UNAUDITED)

For the six months period ended 30 June 2014

	<i>For the six months period ended 30 June</i>	
	<i>2014 SR</i>	<i>2013 SR</i>
OPERATING ACTIVITIES		
Income before zakat and income tax	7,305,580	16,891,867
Adjustments to:		
Depreciation and amortization	22,170,118	22,269,043
Minority interests	(6,351,563)	(9,400,820)
Provision for doubtful debts	1,500,000	-
Provision for slow moving items	2,740,331	1,450,000
Unrealized gain from held for trading investments	(35,458)	(385,085)
Gain from sale of held for trading investments	(1,926,290)	-
Provision for employees' terminal benefits	2,437,181	3,180,899
	<u>27,839,899</u>	<u>34,005,904</u>
Changes in operating assets and liabilities:		
Accounts receivable	(40,654,824)	(49,384,052)
Prepaid expenses and other current assets	(11,695,935)	(8,061,846)
Inventories	(3,427,429)	70,381,556
Accounts and notes payable	38,578,091	1,536,299
Accrued expenses and other current liabilities	6,834,500	6,135,403
Held for trading investments	11,470,794	-
	<u>28,945,096</u>	<u>54,613,264</u>
Cash from operations		
Zakat and income tax paid	(3,224,132)	(1,255,844)
Employees' terminal benefits paid	(1,270,776)	(1,345,535)
	<u>24,450,188</u>	<u>52,011,885</u>
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(2,383,057)	(19,637,360)
Intangible assets	(3,083,835)	(6,051,973)
	<u>(5,466,892)</u>	<u>(25,689,333)</u>
FINANCING ACTIVITIES		
Repayments of bank borrowings and term loans, net	(27,453,424)	(3,433,937)
	<u>(27,453,424)</u>	<u>(3,433,937)</u>
(DECREASE) INCREASE IN BANK BALANCES AND CASH	<u>(8,470,128)</u>	<u>22,888,615</u>
Bank balances and cash at the beginning of the period	27,652,981	63,843,136
BANK BALANCES AND CASH AT THE END OF THE PERIOD	<u>19,182,853</u>	<u>86,731,751</u>
Non cash transactions:		
Unrealized gain from revaluation of available for sale investments	360,592	110,886

The attached notes 1 to 13 form part of these interim consolidated financial statements.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS –
(UNAUDITED)
30 June 2014

1 ACTIVITIES

Middle East Specialised 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 interim consolidated financial statements:

Subsidiary	Ownership %		Country of Incorporation
	2014	2013	
Middle East Specialised Cables Company - Jordan	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)	100.0	100.0	United Arab Emirates

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

2 BASIS OF CONSOLIDATION

The interim 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 interests has been calculated and reflected separately in the interim consolidated balance sheet and interim consolidated statements of income. Significant balances and transactions between the Group companies have been eliminated in the interim consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The accompanying interim consolidated financial statements have been prepared in accordance with the Standard on Interim Financial Statements issued by the Saudi Organization for Certified Public Accountants (SOCPA). The significant accounting policies used in the preparation of the interim consolidated financial statements are consistent with those used in the preparation of annual consolidated financial statements for the year ended 31 December 2013.

The interim consolidated financial statements and the accompanying notes should be read in conjunction with the annual audited consolidated financial statements and the related notes for the year ended 31 December 2013.

A brief summary of the principal accounting policies of the Group is set out below:

Accounting convention

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

Use of estimates

The preparation of interim consolidated financial statements in conformity with generally accepted accounting standards requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date of the interim consolidated financial statements, in addition to the reported amounts of revenues and expenses during the period. Although these estimates are based on management’s best knowledge of current events and activities available with the management, actual result may ultimately differ from those estimates.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS –
(UNAUDITED) (continued)
30 June 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivables

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 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 interim 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. Investments in associates are accounted for using the equity method of accounting. Under the equity method, investment in an associate is carried in the interim consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The interim consolidated statement of income will reflect the Group's share in the results of associate.

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.

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.

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 interim 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 interim consolidated statement of income.

Middle East Specialized Cables Company (MESC)
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS –
(UNAUDITED) (continued)
30 June 2014

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (and Jordan 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 interim consolidated statement of income. Differences, if any, 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. 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.

Expenses

Selling and distribution expenses principally comprise of costs incurred in the distribution and sale of the Group'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.

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 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 interim 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 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS –
(UNAUDITED) (continued)
30 June 2014

4 BANK BORROWINGS AND TERM LOANS

	<i>30 June 2014 SR</i>	<i>30 June 2013 SR</i>
Current:		
Murabaha loans	48,046,093	120,608,216
Short term loans and bank overdrafts	86,542,741	106,401,825
	<u>134,588,834</u>	<u>227,010,041</u>
Current portion of long term loans	57,187,030	143,677,378
	<u>191,775,864</u>	<u>370,687,419</u>
Non - current:		
Term loans	455,814,059	487,977,401
	<u>647,589,923</u>	<u>858,664,820</u>

Bank borrowings and term loans are obtained from various financial institutions and are secured by promissory notes, corporate guarantees, available for sale investments and pledge of certain property, plant and equipment items. They carry borrowing costs at normal commercial rates.

During the year ended 31 December 2013, the Company signed a restructuring agreement with its current local bankers to restructure its short term loans.

Loans 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, the banks have the right to demand immediate repayment of the loans if any of the covenants are not met. As at 30 June 2014, the Company was not in compliance with certain covenants, and they are in the process of submitting a request to the banks for a waiver from these covenants.

5 ZAKAT AND INCOME TAX

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

The movement in Zakat provision for the period is as follows:

	<i>30 June 2014 SR</i>	<i>30 June 2013 SR</i>
At the beginning of the period	11,153,201	5,410,400
Provided during the period	4,950,000	3,499,998
Paid during the period	(3,224,132)	(1,255,844)
At end of the period	<u>12,879,069</u>	<u>7,654,554</u>

The Company has filed its zakat returns for prior years up to the year ended 31 December 2013 and has obtained the final Zakat assessments up to the year ended 31 December 2007.

6 SHARE CAPITAL

The Company's share capital is divided into 60 million shares as of 30 June 2014 (30 June 2013: 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. The right's issue cost of SR 9,035,761 has been charged to the accumulated losses.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS –
(UNAUDITED) (continued)
30 June 2014

7 EARNINGS PER SHARE

Earnings per share attributable to income from operations and net income for the period are calculated by dividing income from operations and net income for the period, respectively, by the number of shares outstanding of 60 million as at 30 June 2014. Earnings per share for the comparative period have been adjusted retrospectively, to reflect the impact of the right's issue offering (note 6).

8 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 Specialised Cables Company- Jordan and MESC for Medium and High Voltage Cables Company.

United Arab Emirates

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

The total assets and total liabilities as at 30 June 2014 and 2013, total revenues, gross profit and net income (loss) for the six months period ended, by segment, are as follows:

30 June 2014	Segment				Total SR
	Saudi Arabia SR	Jordan SR	United Arab Emirates SR	Eliminations	
Sales	426,603,788	124,241,428	92,099,201	(163,611,619)	479,332,798
Gross profit	48,742,085	7,033,214	7,250,399	-	63,025,698
Net income (loss)	2,355,581	(20,336,441)	1,421,200	18,915,240	2,355,580
Total assets	984,276,841	436,527,975	438,115,213	(440,867,906)	1,418,052,123
Total liabilities	477,641,452	394,918,250	139,228,877	(95,657,670)	916,130,909

30 June 2013	Segments				Total SR
	Saudi Arabia SR	Jordan SR	United Arab Emirates SR	Eliminations	
Sales	371,767,744	92,416,951	80,926,764	(89,651,769)	455,459,690
Gross profit	63,788,525	4,268,371	10,625,773	-	78,682,669
Net income (loss)	13,391,867	(25,570,286)	4,746,176	20,824,112	13,391,869
Total assets	924,100,629	443,702,318	294,470,423	(295,487,462)	1,366,785,908
Total liabilities	629,056,734	369,698,783	143,456,536	(75,143,937)	1,067,068,116

9 INTERIM RESULTS

The results of operations of the Group for the interim period may not be an indication of the results of the full year's operations.

10 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 loans.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS –
(UNAUDITED) (continued)
30 June 2014

10 RISK MANAGEMENT (continued)

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, Jordan 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.

11 CONTINGENCIES

The Group's bankers have issued, on its behalf, bank guarantees and letters of credit amounting to SR 210.4 Million (30 June 2013: SR 228.3 Million) in the normal course of business.

12 KEY SOURCES OF ESTIMATION UNCERTAINTY

Doubtful trade accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the balance sheet date, gross trade accounts receivable were SR 548,660,811 (30 June 2013: SR 415,079,785), and the provision for doubtful trade accounts receivable was SR 35,159,701 (30 June 2013: SR 30,516,718). Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the statement of income.

Impairment of inventories

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the balance sheet date, gross inventories were SR 280,430,165 (30 June 2013: SR 223,065,208), with allowance for old and obsolete inventories amounting to SR 24,876,376 (30 June 2013: SR 27,433,718). Any difference between the amounts actually realized in future periods and the amounts expected will be recognized in the statement of income.

Useful lives of property and equipment

The Company management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. The estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

13 COMPARATIVE FIGURES

Certain of the prior period amounts have been reclassified to conform to the presentation in the current period.