

Errist. & Young



CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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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 2012 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 2012 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: 13 Rabi Thani 1434H (24 February 2013)

CONSOLIDATED BALANCE SHEET			
As at 31 December 2012	Note	2012 SR	2011 SR
ASSETS CURRENT ASSETS Bank balances and cash	4	63,843,136	29,352,184
Held for trading investments Accounts receivable Prepaid expenses and other current assets Inventories	5 6 7 8	6,306,569 343,759,144 24,526,729 267,463,046	7,590,204 346,819,385 44,246,456 305,658,011
TOTAL CURRENT ASSETS		705,898,624	733,666,240
NON-CURRENT ASSETS Available for sale investments Investment in an associate Property, plant and equipment Intangible assets Other long term assets	10 11 12 13 14	3,705,771 10,613,000 594,117,926 2,521,892 37,394,085	4,460,043 10,613,000 603,173,464 3,684,064 26,701,939
TOTAL NON-CURRENT ASSETS		648,352,674	648,632,510
TOTAL ASSETS		1,354,251,298	1,382,298,750
LIABILITIES AND EQUITY LIABILITIES CURRENT LIABILITIES Bank borrowings and term loans Accounts and notes payable Accrued expenses and other current liabilities	15 16	411,619,588 108,878,086 69,897,085	665,822,428 128,494,436 60,443,821
TOTAL CURRENT LIABILITIES		590,394,759	854,760,685
NON-CURRENT LIABILITIES Term loans Employees' terminal benefits	15	450,479,169 17,876,915	230,101,439 18,522,889
TOTAL NON-CURRENT LIABILITIES		468,356,084	248,624,328
TOTAL LIABILITIES		1,058,750,843	1,103,385,013
EQUITY SHAREHOLDERS' EQUITY Share capital Statutory reserve Accumulated losses Harralized loss from revelvation of available for	18	400,000,000 28,985,180 (145,763,222)	400,000,000 28,985,180 (176,863,816)
Unrealized loss from revaluation of available for sale investments Net change in fair value of derivative financial instruments	10 19	(1,680,823)	(1,285,137) (8,329,270)
TOTAL SHAREHOLDERS' EQUITY		281,541,135	242,506,957
MINORITY INTERESTS		13,959,320	36,406,780
TOTAL EQUITY		295,500,455	278,913,737
TOTAL LIABILITIES AND EQUITY		1,354,251,298	1,382,298,750

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2012

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	Note	2 0 12 S R	2011 SR
Sales Cost of sales		990,580,978 (829,421,456)	1,139,385,566 (1,043,763,037)
GROSS PROFIT		161,159,522	95,622,529
EXPENSES			
Selling and distribution	20	(36,818,921)	(43,120,688)
General and administrative	21	(43,721,621)	(39,332,420)
Cost of unutilized production capacity	21		
Amortisation	1.2	(25,481,228)	(31,606,261)
Amortisation	13	(1,600,083)	(1,994,559)
TOTAL EXPENSES		(107,621,853)	(116,053,928)
INCOME (LOSS) FROM MAIN OPERATIONS		53,537,669	(20,431,399)
Impairment of goodwill	13	_	(70,565,313)
Unrealized loss from held for trading investments	5	(1,283,635)	(1,004,586)
Loss on derivative financial instruments	19	(4,962,440)	(30,508,434)
Financial charges	15	(41,347,681)	(38,727,523)
	1.5		
Other income		166,023	445,604
INCOME (LOSS) BEFORE MINORITY INTEREST, ZAKAT AND TAX		6,109,936	(160,791,651)
Minority interests		23,536,677	36,758,294
INCOME (LOSS) BEFORE ZAKAT AND TAX		29,646,613	(124,033,357)
Zakat and income tax recovery, net	17	1,453,981	3,897,213
NET INCOME (LOSS) FOR THE YEAR		31,100,594	(120,136,144)
Earnings (loss) per share (SR):	22		
Datames (1000) her share (0xx).	LL		
Attributable to: Income (loss) from main operations Net income (loss) for the year		1.34 0.78	(0.51) (3.00)

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 SR	2011 SR
OPERATING ACTIVITIES Income (loss) before zakat and income tax	29,646,613	(124,033,357)
Adjustments to: Unrealized loss from held for trading investments Provision for doubtful debts, net Provision for slow moving inventories Depreciation and amortization Impairment of goodwill Provision for employees' terminal benefits Minority interests	1,283,635 2,790,808 12,346,945 45,837,575 5,087,090 (23,536,677) 73,455,989	1,004,586 9,080,842 4,858,725 51,125,867 70,565,313 5,924,984 (36,758,294) (18,231,334)
Changes in operating assets and liabilities: Accounts receivable Prepaid expenses and other current assets Inventories Accounts and notes payable Accrued expenses and other current liabilities Cash from (used in) operations	(15,141,351) 18,388,547 25,848,014 (19,616,350) 21,499,089 104,433,938	(51,825,516) (16,270,850) (10,212,900) 50,831,653 (5,182,801) (50,891,748)
Zakat and income tax paid Employees' terminal benefits paid	(1,599,918) (5,733,064)	(5,413,822) (4,547,962)
Net cash from (used in) operating activities INVESTING ACTIVITIES Advance against purchase of property, plant and equipment Additions to property, plant and equipment Intangible assets Restricted cash	97,100,956 (29,678,158) (437,910)	1,211,445 (35,715,296) (1,530,001) (3,366,000)
Net cash used in investing activities	(30,116,068)	(39,399,852)
FINANCING ACTIVITIES (Repayments of) proceeds from bank borrowings and term loans, net Net movement in minority interests Net cash (used in) from financing activities	$ \begin{array}{r} (33,825,111) \\ \underline{1,331,175} \\ \hline (32,493,936) \end{array} $	86,725,093 (187,434) 86,537,659
INCREASE (DECREASE) IN BANK BALANCES AND CASH	34,490,952	(13,715,725)
Bank balances and cash at the beginning of the year	25,986,184	39,701,909
BANK BALANCES AND CASH AT THE END OF THE YEAR (note 4)	60,477,136	25,986,184
Non cash transactions: Unrealized loss from revaluation of available for sale investments Transfer of advances against purchase of property, plant and equipment to property, plant and equipment (note 12) Transfer from investment in an associate to property, plant and equipment Balances related to derivatives financial instruments:	(395,686) 5,503,800	(316,873) - 10,660,000
Accrued expenses and other current liabilities Net changes in fair value of derivatives financial instruments Minority interests	(8,445,902) 8,329,270 (241,958)	(1,133,105) (4,213,345) 4,046,919

The attached notes 1 to 28 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

		I = S			Minority interest SR	Total equity SR		
	Share capital SR	Statutory reserve SR	Accumulated losses SR	Unrealized loss from revaluation of available for sale investments SR	Net change in fair value of derivative financial instruments SR	Total SR		
Balance at 31 December 2010	400,000,000	28,985,180	(56,727,672)	(968,264)	(4,115,925)	367,173,319	69,305,589	436,478,908
Net loss for the year	-	-	(120,136,144)	-	-	(120,136,144)	-	(120,136,144)
Net movement during the year	-	-	-	-	-	-	(32,898,809)	(32,898,809)
Net change in fair value from: - revaluation of available for sale investments - derivatives financial instruments	-	-	-	(316,873)	- (4,213,345)	(316,873) (4,213,345)		(316,873) (4,213,345)
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 - derivatives financial instruments	<u>-</u>	-	-	(395,686)	- 8,329,270	(395,686) 8,329,270	- -	(395,686) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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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		Ownership %	Country of	
		2011	Incorporation	
Middle East Specialised Cables Company - Jordan (i)	49.0	53.7	Kingdom of Jordan	
MESC for Medium and High Voltage Cables Company (Formerly MESC Fujikura Cable Company) *	69.14	70.25	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	100.0	United Arab Emirates	

^{*}Direct and indirect ownership through its subsidiary, Middle East Specialized Cables Company - Jordan.

- (i) During the year 2012, the Company's board of directors has approved the management's recommendation to designate a fund to the benefit of its subsidiary employees (Middle East Specialized Cables Company, MESC -Jordan), through a decrease of the Company's owned shares in MESC - Jordan from 53.7 % to 49% and transferring the ownership to this fund's benefit at net book value.
- (ii) During the year 2012, the Company's board of directors decided to merge the operations of Sharjah Cables Factory with the operations of MESC - Ras Al Khaimah, 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 is 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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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 over heads. 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 entitiy 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

Intangible assets

Goodwill

The excess of consideration paid over the fair value of net assets acquired is recorded as goodwill. Goodwill is periodically re-measured and reported in the consolidated financial statements at carrying value after being adjusted for impairment, if any. The carrying amount of negative goodwill, if any, is netted off against fair value of non-current assets.

Other intangible assets

Fee for technical assistance and license fee, management fee of SIDF loan and development costs relating to information systems are deferred and amortised over an estimated period of benefit up to a maximum of five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

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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 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 Arahia, 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 npon 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 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 remeasured 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) 31 December 2012

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Financial Instruments - continued

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.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognized directly under shareholders' equity as a derivative financial instruments.

Amounts recognized directly under shareholders' equity as a derivative financial instruments are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the forecast sale occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts recognized under equity as a derivative financial instruments are transferred to the initial carrying amount of the nonfinancial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized directly under equity as a derivative financial instruments are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized directly under equity as a derivative financial instruments remains under equity until the forecast transaction or firm commitment affects consolidated statement of income.

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 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 CONSOLIDATED FINANCIAL STATEMENTS (continued) 31 December 2012

4 BANK BALANCES AND CASH

	2 01 2 SR	2011 SR
Bank balances Cash in hand	63,611,571 231,565	29,068,372 283,812
Bank balances and cash	63,843,136	29,352,184
Less: restricted cash	(3,366,000)	(3,366,000)
Cash and cash equivalent	60,477,136	25,986,184

As of 31 December 2012, bank balances and cash include a restricted cash of SR 3.3 million (31 December 2011: SR 3.3 million), which relates 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 (2011: SR 3.3 million) was considered as restricted cash, which represents the maximum exposure to the Group in this lawsuit.

5 HELD FOR TRADING INVESTMENTS

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

	2 01 2 SR	2011 SR
At the beginning of the year Net change in unrealized loss from revaluation	7,590,204 (1,283,635)	8,594,790 (1,004,586)
At the end of the year	6,306,569	7,590,204
6 ACCOUNTS RECEIVABLE		
	2 01 2 SR	2011 SR
Trade receivables Less: provision for doubtful debts	372,627,799 (30,016,718)	369,247,737 (27,225,910)
	342,611,081	342,021,827
Retentions receivable Less: non-current portion (note 14)	37,210,965 (36,062,902)	25,449,678 (20,652,120)
Retentions receivable - current	1,148,063	4,797,558
	343,759,144	346,819,385

As at 31 December 2012, trade receivables at nominal value of SR 30,016,718 (2011: SR 27,225,910) were impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) 31 December 2012

6 ACCOUNTS RECEIVABLE - continued

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

	2012 SR	2011 SR
At the beginning of the year Additions during the year Amounts written off during the year	27,225,910 2,790,808	20,827,701 9,080,842 (2,682,633)
At the end of the year	30,016,718	27,225,910
7 PREPAID EXPENSES AND OTHER CURRENT ASSETS		
	2012 SR	2011 SR
Advances to suppliers Margin deposits Prepaid expenses Insurance receivable Other current assets	11,877,139 6,571,657 3,295,719 580,984 2,201,230	21,588,707 10,787,192 4,532,448 3,671,006 3,667,103
	24,526,729	44,246,456
8 INVENTORIES		
	2012 SR	2011 SR
Finished goods Raw and packing materials Work in progress Spare parts Goods in transit	94,354,230 126,234,319 46,653,840 17,235,801 15,209,637	131,679,413 93,226,413 77,044,389 16,760,053 6,825,579
Less: provision of slow moving inventories	299,687,827 (32,224,781)	325,535,847 (19,877,836)
	267,463,046	305,658,011
Movement in the provision of slow moving inventories was as follows:	2012 SR	2011 SR
At the beginning of the year Charge for the year	19,877,836 12,346,945	15,019,111 4,858,725
At the end of the year	32,224,781	19,877,836

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2012

9 RELATED PARTY TRANSACTIONS

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

Related party	Nature of transaction	Amount o	Amount of transaction 2012 2011 SR SR 1,833,789 788,807	
		2012	2011	
		SR	SR	
Affiliates	Sales	1,833,789	788,807	
	Purchases	3,297,847	2,013,861	

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:

	2012 SR	2011 SR
Cost: At the beginning and end of the year	6,854,114	6,854,114
Unrealized losses: At the beginning of the year Net movement during the year	(2,394,071) (754,272)	(1,803,773) (590,298)
At the end of the year (*)	(3,148,343)	(2,394,071)
Net carrying amount	3,705,771	4,460,043

^(*) 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 1,467,520 (2011: SR 1,108,934).

11 INVESTMENT IN AN ASSOCIATE

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

Movement in investment in an associate during the year is as follows:

	2012 SR	2011 SR
At the beginning of the year Transfer to property, plant & equipment (i)	10,613,000	21,273,000 (10,660,000)
At the end of the year	10,613,000	10,613,000

(i) During 2011, one of the Group's subsidiaries swapped their share in the associated company for a two floors in a new building in Jordan, which will be used by the company. Accordingly, the amount has heen transferred to property, plant and equipment (note 12).

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Middle East Specialized Cables Company (MESC)

(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2012

12 PROPERTY, PLANT AND EQUIPMENT

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

Buildings Plant and machinery	10 - 25 years 4-15 years			Furniture, fixtures and office equipment 4 - 10 years Motor vehicles 4 - 10 years				
	Land SR	Buildings* SR	Plant and machinery SR	Furniture, Fixtures and office equipment SR	Motor vehicles SR	Capital work in progress SR	Total 2012 SR	Total 2011 SR
Cost: At the beginning of the year Additions Transfer (note 11) Disposals	39,136,490 6,282,800	218,347,314 328,179 17,050,080	572,629,545 840,143 33,228,279	23,371,659 677,490 209,208 (430,018)	16,836,641 213,573 (642,574)	37,947,995 26,839,773 (50,487,567)	908,269,644 35,181,958 (1,072,592)	864,363,287 35,715,296 10,660,000 (2,468,939)
At the end of the year	45,419,290	235,725,573	606,697,967	23,828,339	16,407,640	14,300,201	942,379,010	908,269,644
Depreciation: At the beginning of the year Charge for the year Disposals At the end of the year	- - - -	49,544,554 11,013,875 - 60,558,429	226,449,637 29,524,552 	16,357,602 2,112,253 (430,014) 18,039,841	12,744,387 1,586,812 (642,574) 13,688, 6 25	- - - -	305,096,180 44,237,492 (1,072,588) 348,261,084	256,677,488 49,131,307 (712,615) 305,096,180
Net book amounts:								
At 31 December 2012	45,419,290	<u>175,167,144</u>	<u>350,723,778</u>	<u>5,788,498</u>	2,719,015	14,300,201	594,117,926	
At 31 December 2011	39,136,490	168,802,760	346,179,908	7,014,057	4,092,254	37,947,995		603,173,464

^{*} Buildings include a factory building with a net book value of SR 54 million (2011: SR 34 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 146 million (2011: SR 117 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 2012 by SR 6 million. This change should have a similar impact on the future yearly results of the Company until the end of the original estimated useful life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) 31 December 2012

12 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation charge for the year is allocated as follows:

Z v p v v v v v v v v v v v v v v v v v	2 0 12 SR	2011 SR
Cost of sales Cost of unutilized production capacity General and administrative expenses (note 21)	36,157,084 6,789,965 1,290,443	41,811,680 5,695,845 1,623,782
	44,237,492	49,131,307
13 INTANGIBLE ASSETS		
	2 0 12	2011
	SR	SR
Goodwill (a)	-	-
Other intangible assets (b)	2,521,892	3,684,064
	2,521,892	3,684,064

(a) Goodwill represented the excess of consideration paid by the Group over its interest in the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities. Most of the goodwill balance shown above resulted from the Group's acquisition of major subsidiaries in the same business.

Movement in goodwill during the year is set out below:

	2 01 2 SR	2011 S R
At the beginning of the year Impairment loss (*)	-	70,565,313
Impatition 1088 (*)		(70,565,313)

- (*) As at 31 December 2011, the management performed a review of the recoverable amount of goodwill in order to assess the amount of impairment relating to its investments in subsidiaries. As a result of the test performed, the management recorded an impairment loss of SR 70 Million in the consolidated statement of income for the year ended 31 December 2011.
- (b) Other intangible assets include mainly software license and loans arrangement fees.

14 OTHER LONG TERM ASSETS

	2 0 12	2011
	SR	SR
Retention receivables - non-current (note 6)	36,062,902	20,652,120
Employees' fund (note 1 (i))	1,331,183	-
Advances against purchase of property, plant and equipment	-	5,503,800
Deferred tax asset		546,019
	37,394,085	26,701,939

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) 31 December 2012

15 BANK BORROWINGS AND TERM LOANS

2012	2011
SR	SR
127,846,217	454,023,468
124,394,163	184,859,302
252,240,380	638,882,770
159,379,208	26,939,658
411,619,588	665,822,428
450,479,169	230,101,439
862,098,757	895,923,867
	SR 127,846,217 124,394,163 252,240,380 159,379,208 411,619,588

(a) The Company has entered into purchase financing agreement (Murabaha) with various local commercial banks which purchase goods on behalf of the Company and resells them to the Company on 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 2012, the subsidiaries in Jordan have rescheduled part of their short term loans of SR 49 million (2011: SR 199 million) to long term loans. The long term loans for the subsidiary are secured by its own corporate guarantee. The outstanding balance of long term loans as of 31 December 2012 is SR 198.8 million. (2011: SR 180.5 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 Rabi Thani 15, 1439H (corresponding to 31 December 2017). 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 26.2 million (2011: SR 134 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 52.4 million (2011: SR 65 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.

Subsequent to the year end, 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 2012 the balances relating to bank borrowings and term loans based on the agreement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) 31 December 2012

16 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2012 SR	2011 SR
Accrued expenses	29,881,987	21,686,932
Advances from customers	20,260,423	7,982,596
Zakat payable (note 17)	5,410,400	9,010,318
Amounts due to related parties (note 9)	2,306,373	746,872
Derivative financial instruments (note 19)	-	8,445,854
Other current liabilities	12,037,902	12,571,249
	69,897,085	60,443,821

17 ZAKAT AND INCOME TAX

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

Charge for the year consists of:

g		
	2012 SR	201 1 SR
Zakat recovery, net	(2,000,000)	(3,897,213)
Foreign income tax provision	546,019	-
Recovery for the year	(1,453,981)	(3,897,213)
The movement in zakat provision for the year is as follows:		
	2012	2011
	SR	SR
At the beginning of the year	9,010,318	18,321,353
Provided during the year	4,000,000	7,020,000
Reversed during the year (a)	(6,000,000)	(10,917,213)
Paid during the year	(1,599,918)	(5,413,822)
At end of the year	5,410,400	9,010,318

(a) During 2008, 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 committee's ruling, 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. Subsequently, 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 2011 and has obtained the final Zakat assessments up to the year ended 31 December 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) 31 December 2012

18 SHARE CAPITAL

The Company's share capital is divided into 40 million as of 31 December 2012 (2011: 40 million shares) of SR 10 each.

The Board of Directors recommended in its meeting held on 18 April 2012 to increase the capital of the Company from SR 400 million to SR 600 million by offering a rights issue of SR 200 million. This is subject to the shareholders' approval in the Extraordinary General Assembly meeting and concerned official authorities.

19 DERIVATIVES FINANCIAL INSTRUMENTS

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

The negative fair value of the cash settled forward commodity contracts amounted to SR nil as at 31 December 2012 (2011: SR 8,445,854) and was reported as accrued expenses and other current liabilities.

Unrealized loss relating to the cash flow hedges which are assessed to be effective amounted to SR nil (2011: SR 8,329,270) was included as part of shareholders' equity. The realized loss during the year ended 31 December 2012 that relates to the cash flow hedge transactions amounted to SR 4,962,440 (2011: SR 30,508,434). Such derivative contracts were terminated in 2012.

20 SELLING AND DISTRIBUTION EXPENSES

	2012 SR	2011 SR
Salaries and related costs	14,206,869	12,111,974
Promotion and advertising	10,760,889	9,138,918
Freight	6,036,768	5,152,373
Provision for doubtful debts (note 6)	2,790,808	9,080,842
Travel	766,579	664,608
Rent	536,023	595,073
Others	1,720,985	6,376,900
	36,818,921	43,120,688
21 GENERAL AND ADMINISTRATIVE EXPENSES		
	2012	2011
	SR	SR
Salaries and related costs	28,844,857	24,730,622
Consultancy and professional fees	5,088,812	4,823,430
Depreciation (note 12)	1,290,443	1,623,782
Repairs and maintenance	1,063,487	1,052,342
Utilities	949,090	1,273,621
Travel	798,341	2,006,289
Other	5,686,591	3,822,334
	43,721,621	39,332,420

22 EARNINGS (LOSS) PER SHARE

Earnings (loss) per share attributable to income (loss) from main operations and net income (loss) for the year are calculated by dividing income (loss) from main operations and net income (loss) for the year, respectively, by the number of shares outstanding of 40 million as at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2012

23 COMMITMENT AND CONTINGENCIES

As at 31 December 2012, the Group has capital commitments at SR 16 million (2011: SR 41million)

At 31 December 2012, the Group's bankers have issued on its behalf bank guarantees amounting to SR 183 million (2011: SR 139 million), in the normal course of business.

24 OPERATING LEASES

The Group has various renewable operating leases for employee housing, office facilities, showrooms and warehouses having different terms extending between one and ten years. Rental expenses incurred during year ended 31 December 2012 under leases were approximately SR 2 million (2011 - SR 2.4 million).

25 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

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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 Medium and High Voltage Cables Company (formerly MESC Fujikura Cable Company) - Jordan

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 2012 and 2011, total revenues and net income (loss) for the two years then ended, by segment, are as follows:

	Segment				
31 December 2012	Saudi Arabia SR	Jordan SR	United Arab Emirates SR	Eliminations	Total SR
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

Segment					
31 December 2011	Saudi Arabia SR	Jordan SR	United Arab Emirates SR	Eliminations	Total SR
Sales	631,003,915	483,777,897	213,513,160	(188,909,406)	1,139,385,566
Gross profit	83,480,774	4,573,875	7,567,880	-	95,622,529
Net loss	(120,136,142)	(96,886,129)	(7,884,991)	104,771,118	(120,136,144)
Total assets	917,753,097	575,896,112	270,927,899	(382,278,358)	1,382,298,750
Total liabilities	675,246,140	413,959,012	96,026,439	(81,846,578)	1,103,385,013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) 31 December 2012

26 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.

27 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 bank deposits, short term loans, Murahaha loans and long term loans.

Credit risk

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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, 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.

28 COMPARATIVE FIGURES

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

