

**ARKAN BUILDING MATERIALS
COMPANY (ARKAN) PJSC**

**Review report and interim financial
information for the period
ended 30 June 2014**

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

**Review report and interim financial information
for the period ended 30 June 2014**

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Board of Directors' Report to Shareholders

On behalf of Arkan Building Materials Company's Board of Directors, I am pleased to present the Board of Directors' report for the period ended 30 June 2014, together with the reviewed condensed consolidated interim financial information for the same period.

Review of Operations:

Arkan is pleased to announce positive results for the first half of 2014 despite the sustained pressure on selling prices of cement.

Revenue from Arkan's Cement segment increased to AED 261.97 million at the end of the first half (H1) of 2014, compared to AED 84.67 million in first half of 2013. Profit from this segment in H1 2014 increased to AED 26.2 million as compared to AED 16.8 million in H1 2013. The significant increase in revenue and profit is due to the commercial production of Arkan's new Al Ain Cement Factory, which contributed revenue of AED 219.12 million and profit of AED 14.23 million from its commercial production in March 2014 till June.

Revenue from Arkan's Blocks segment was AED 32.54 million at the end of H1 2014, compared to AED 37.61 million in H1 2013 due to lower sales volumes. However, higher selling prices and a decrease in production cost resulting from improved factory utilisation led to achieving a net profit of AED 1.85 million as compared to AED 1.28 million for the same period last year.

Revenue from Arkan's GRP Pipes segment reached AED 19.76 million at the end of 30 June 2014, compared to AED 14 million at 30 June 2013 due to increase in sales volume and selling prices. Profit from this segment amounted to AED 165 thousand in H1 2014 compared to a loss of AED 4.23 million during H1 2013.

Arkan's PVC Pipes segment posted revenue of AED 31.64 million at the end of H1 2014, compared to AED 36.2 million in H1 2013. Profit from PVC factory was AED 169 thousand at the end of H1 2014 as compared to AED 2.35 million in H1 2013. The decline in profit is due to increase in raw materials cost and lower sales volume due to delay in projects progress.

Arkan's Bags segment revenue was AED 20.72 million for the period ended 30 June 2014, compared to AED 21.45 million on 30 June 2013. Profit from Bags segment decreased slightly for the period ended 30 June 2014 to AED 1.71 million, compared to AED 1.93 million in H1 2013 due to lower selling prices.

Financial Results:

Overall, Arkan's revenue in the first half of 2014 was AED 366.63 million, compared to AED 193.92 million in the first half of 2013. The Company's profit for the same period was AED 30.1 million compared to AED 17.43 million in H1 2013. The value of shareholders' equity increased to AED 1.74 billion as of 30 June 2014, compared to AED 1.70 billion as of 31 December 2013.

Liquidity

The Company had cash and cash equivalents of AED 157.95 million at the end of H1 2014.

Total Assets

The total assets of the Company reached AED 3.69 billion at the end of H1 2014.

Investments

The fair value of the shares portfolio as at 30 June 2014, was AED 357 thousand. The value of the investment in Emirates Real Estate Fund at the end of 30 June 2014 increased to AED 70.87 million as compared to AED 68.04 as of 31 December 2013. The share of profit from associates at the end of the first half of 2014 was AED 4.12 million compared to AED 1.75 million in the same period last year. Arkan also received a cash dividend of AED 8 million from this investment.

On behalf of the Board of Directors:

A blue ink signature of Suhail Mubarak Al Ameri.

Suhail Mubarak Al Ameri
Board of Director's Chairman

13 August 2014





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Independent auditors' report on review of condensed consolidated interim financial information

The Shareholders
Arkan Building Materials Company (ARKAN) PJSC

Introduction

We have reviewed the accompanying 30 June 2014 condensed consolidated interim financial information of Arkan Building Materials Company (ARKAN) PJSC and its subsidiaries (collectively referred to as the "Group"), which comprises:

- the condensed consolidated interim statement of financial position as at 30 June 2014;
- the condensed consolidated interim statement of profit or loss for the six-month period ended 30 June 2014;
- the condensed consolidated interim statement of comprehensive income for the six-month ended 30 June 2014;
- the condensed consolidated interim statement of changes in equity for the six-month period ended 30 June 2014;
- the condensed consolidated interim statement of cash flows for the six-month period ended 30 June 2014; and
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review


We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2014 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

Other Matter

The condensed consolidated interim financial information for the six-month period ended 30 June 2013 and the consolidated financial statements for the year ended 31 December 2013 were reviewed and audited, respectively, by another auditor who expressed an unmodified review conclusion on the condensed consolidated interim financial information for the six-month period ended 30 June 2013 on 30 July 2013 and an unmodified audit opinion on the consolidated financial statements for the year ended 31 December 2013 on 17 March 2014.


Munther Dajani
Registration Number 268
Abu Dhabi, United Arab Emirates

13 AUG 2014

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

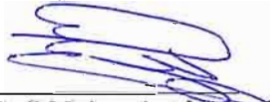
**Condensed consolidated interim statement of financial position
at 30 June 2014**


	Notes	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	2,244,117	2,235,211
Goodwill		128,430	128,430
Other intangible assets		141,735	144,542
Investment in associates and a joint venture	6	211,037	212,962
Financial assets measured at fair value through other comprehensive income (FVTOCI)	7	70,868	68,035
Total non-current assets		2,796,187	2,789,180
Current assets			
Financial assets measured at fair value through profit or loss (FVTPL)	7	357	357
Inventories	8	303,146	248,305
Trade and other receivables	9	391,428	282,979
Prepayments		33,330	4,556
Amounts due from related parties	11	10,627	34,898
Cash and bank balances	10	157,952	145,214
Total current assets		896,840	716,309
Total assets		3,693,027	3,505,489

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

**Condensed consolidated interim statement of financial position
at 30 June 2014 (continued)**

	Notes	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		1,750,000	1,750,000
Statutory reserve		54,372	54,372
Capital reserve		3,783	3,783
Investment revaluation reserve	7	(73,867)	(76,700)
Accumulated losses		1,629	(28,467)
Net equity attributable to Owners of the Company		1,735,917	1,702,988
Non-controlling interest		307	307
Net equity		1,736,224	1,703,295
Non-current liabilities			
Borrowings	12	993,567	1,054,723
Deferred government grant		46,000	69,000
Loan from a related party	11	146,920	146,920
Provision for employees' end of service benefit		31,324	30,137
Total non-current liabilities		1,217,811	1,300,780
Current liabilities			
Borrowings	12	441,233	240,411
Trade and other payables	13	240,950	204,196
Amounts due to related parties	11	10,809	10,807
Deferred government grant		46,000	46,000
Total current liabilities		738,992	501,414
Total liabilities		1,956,803	1,802,194
Total equity and liabilities		3,693,027	3,505,489


Suhail Mubarak Al Ameri
Chairman


Abdellatif Sfaxi
Chief Executive Officer


Faizal Amod
Chief Financial Officer

The notes set out on pages 9 to 26 form an integral part of these condensed consolidated interim financial information.

The independent auditors' report on review of these condensed consolidated interim financial information is set out on page 2.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC
Condensed consolidated interim statement of profit or loss (unaudited)
for the period ended 30 June 2014

	Notes	3 months ended		6 months ended	
		30 June		30 June	
		2014	2013	2014	2013
		AED'000	AED'000	AED'000	AED'000
Revenue		237,295	100,190	366,625	193,921
Direct costs		(186,456)	(82,470)	(289,630)	(158,861)
Gross profit		50,839	17,720	76,995	35,060
Selling and distribution expenses		(5,574)	(4,644)	(11,576)	(9,113)
General and administrative Expenses		(25,370)	(17,725)	(42,982)	(34,652)
Other income		8,817	1,180	9,493	1,644
Share of profits of associates (net)	6	2,484	849	4,115	1,745
Income from government grant		11,500	11,500	23,000	23,000
Dividend income		5	-	1,928	1,846
Finance expenses		(26,170)	(1,115)	(31,218)	(2,233)
Finance income		261	41	341	134
Profit for the period		16,792	7,806	30,096	17,431
Profit for the period attributable to:					
Owners of the Company		16,792	7,806	30,096	17,431
Non-controlling interest		-	-	-	-
		16,792	7,806	30,096	17,431
Basic and diluted earnings per share attributable to Owners of the Company (AED)	17	0.010	0.004	0.017	0.010

The notes set out on pages 9 to 26 form an integral part of these condensed consolidated interim financial information.

The independent auditors' report on review of these condensed consolidated interim financial information is set out on page 2.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Condensed consolidated interim statement of comprehensive income (unaudited)
for the period ended 30 June 2014

	Note	3 months ended		6 months ended	
		30 June		30 June	
		2014	2013	2014	2013
		AED'000	AED'000	AED'000	AED'000
Profit for the period		16,792	7,806	30,096	17,431
Other comprehensive income					
<i>Items that will not be reclassified subsequently to profit or loss:</i>					
Net change in fair value of investment in equity instruments measured at FVTOCI	7	-	1,688	2,833	1,685
Total comprehensive income for the period		16,792	9,494	32,929	19,116
Total comprehensive income for the period attributable to:					
Equity owners of the Company		16,792	9,494	32,929	19,116
Non-controlling interest		-	-	-	-
		16,792	9,494	32,929	19,116

The notes set out on pages 9 to 26 form an integral part of these condensed consolidated interim financial information.

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ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

**Condensed consolidated interim statement of changes in equity
for the period ended 30 June 2014**

	Share capital AED'000	Statutory reserve AED'000	Capital reserve AED'000	Investment revaluation reserve AED'000	Accumulated losses AED'000	Net equity attributable to Owners of the Company AED'000	Non- controlling interest AED'000	Total AED'000
Balance at 1 January 2013 (audited)	1,750,000	50,096	3,783	(81,040)	(66,953)	1,655,886	307	1,656,193
Profit for the period	-	-	-	-	17,431	17,431	-	17,431
Other comprehensive income for the period	-	-	-	1,685	-	1,685	-	1,685
Total comprehensive income for the period	-	-	-	1,685	17,431	19,116	-	19,116
Balance at 30 June 2013 (unaudited)	1,750,000	50,096	3,783	(79,355)	(49,522)	1,675,002	307	1,675,309
Balance at 1 January 2014 (audited)	1,750,000	54,372	3,783	(76,700)	(28,467)	1,702,988	307	1,703,295
Profit for the period	-	-	-	-	30,096	30,096	-	30,096
Other comprehensive income for the period	-	-	-	2,833	-	2,833	-	2,833
Total comprehensive income for the period	-	-	-	2,833	30,096	32,929	307	32,929
Balance at 30 June 2014 (unaudited)	1,750,000	54,372	3,783	(73,867)	1,629	1,735,917	307	1,736,224

The notes set out on pages 9 to 26 form an integral part of these condensed consolidated interim financial information.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

**Condensed consolidated interim statement of cash flows (unaudited)
for the period ended 30 June 2014**

	6 months ended 30 June	
	2014	2013
	AED'000	AED'000
Cash flows from operating activities		
Profit for the period	30,096	17,431
Adjustments for:		
Depreciation of property, plant and equipment	41,957	21,658
Amortisation of other intangible assets	4,306	4,231
Amortisation of deferred government grant	(23,000)	(23,000)
Dividend income	(1,928)	(1,846)
Finance income	(341)	(134)
Finance cost	31,218	2,233
Gain on disposal of property, plant and equipment	-	(10)
Share of profit from associates	(6,075)	(1,745)
Impairment loss recognised on trade receivables	-	720
Provision for employees' end of service benefit	1,900	1,872
Provision for inventory obsolescence	2,187	311
Operating cash flows before movements in working capital	80,320	21,721
Changes in		
- inventories	(57,028)	(17,793)
- trade and other receivables	(108,449)	(73,262)
- prepayments	(28,774)	57
- due from related parties	24,271	(13,794)
- payables and accruals	36,754	12,335
- due to related parties	2	-
Cash used in operating activities	(52,904)	(70,736)
End of service benefits paid	(713)	(525)
Net cash used in operating activities	(53,617)	(71,261)
Cash flows from investing activities		
Payments for property, plant and equipment	(52,362)	(47,454)
Proceeds from disposal of property and equipment	-	10
Dividends received from associates	8,000	6,000
Payments for short term investment/deposit held for more than 3 months	19,955	-
Dividend received from investments held at FVTOCI	1,928	1,846
Finance income	341	134
Net cash used in investing activities	(22,138)	(39,464)
Cash flows from financing activities		
Proceeds from long term loan	200,000	100,000
Repayment of long term loan	(60,334)	-
Finance cost paid	(31,218)	(2,233)
Net cash from financing activities	108,448	97,767
Net increase in cash and cash equivalents	32,693	(12,958)
Cash and cash equivalents at the beginning of the period	121,581	134,539
Cash and cash equivalents at the end of the period	154,274	121,581

The notes set out on pages 9 to 26 form an integral part of these condensed consolidated interim financial information.

The independent auditors' report on review of these condensed consolidated interim financial information is set out on page 2.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014

1 General information

Arkan Building Materials Company PJSC (“Arkan” or the “Company”) was incorporated in Abu Dhabi, United Arab Emirates (“UAE”) as a Public Joint Stock Company pursuant to Ministerial Resolution No. 228 for the year 2006. General Holding Corporation PJSC (the “parent company”) owns 51% of the Company’s shares.

The principal activities of the Company include operating, trading and investing in industrial projects and commercial companies involved in the building materials sector.

These condensed consolidated interim financial information include the performance and financial position as at and for the six months ended 30 June 2014 of the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s interest in associates.

The principal activity, country of incorporation and operation, and ownership interest of the Company in the subsidiaries is set out below:

Subsidiary	Country of incorporation and operation	Ownership interest (%)		Principal activities
		2014	2013	
Emirates Blocks Factory	UAE	100	100	Production and sale of cement blocks.
Emirates Cement Factory	UAE	100	100	Production and sale of packed and bulk cement.
Anabeeb Pipes Manufacturing Factories	UAE	100	100	Production and sale of pipes and plastic and paper bags.
Arkan Mining and Transportation	Oman	70	70	Production of mine lime stone.
Arkan Lime Factory	UAE	100	100	Manufacturing of quick lime, hydrated lime and dolomite lime

On 10 November 2010, the Executive Council of Abu Dhabi approved the transfer of the equity shares of Anabeeb Pipes Manufacturing Factories (“Anabeeb”), to the Company effective 1 July 2011.

On 27 May 2010, the Board of Directors approved the liquidation of Arkan Mining and Transportation. As of 30 June 2014, the liquidation is yet to be completed.

On 23 June 2011, the Board of Directors approved a plan to secure a 70% investment in Dot Modern Oman, a mining company located in Oman. As at 30 June 2014, the acquisition is still to be completed.

As at 30 June 2014, the Company is in the process of negotiating with a new partner for Arkan Lime Factory.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

2 New and ammended International Financial Reporting Standards (IFRS) in issue but not yet effective

At the date of the condensed consolidated interim financial information, the following Standards, Amendments and Interpretations have not been effective and have not been early adopted:

<u>New and revised IFRSs</u>	<u>Effective date</u>
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Ammendments to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
Annual improvements 2010-2012 Cycle, IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38 and IAS 24	1 July 2014
Annual improvements 2011-2013 Cycle, IFRS 1, IFRS 3, IRFS 13, and IAS 40	1 July 2014
IFRS 9 Financial Instruments	31 December 2018

Management anticipates that these amendments will be applied in the condensed consolidated interim financial information for the initial period when they become effective. Management has not yet had the opportunity to consider the potential impact of the application of these amendments.

3 Summary of significant accounting policies

(a) Basis of preparation

This condensed consolidated interim financial information has been prepared in accordance with IAS 34 *Interim Financial Reporting* and also complies with the applicable requirements of the laws in the U.A.E. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2013.

These condensed consolidated interim financial information have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

These condensed consolidated interim financial information are presented in UAE Dirhams (AED) as this is the currency in which the majority of the Group's transactions are denominated and is rounded off to the nearest thousand.

The condensed consolidated interim financial information does not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2013. In addition, results for the six months period ended 30 June 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

3 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

As required by the Securities and Commodities Authority (“SCA”) notification dated 12 October 2008, accounting policies relating to investments in associates and financial assets have been disclosed below.

The accounting policies and estimates used in the preparation of these condensed consolidated interim financial information are consistent with those in the audited annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations effective 1 January 2014.

The following new and revised IFRSs have been adopted in this condensed consolidated interim financial information. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current period but may affect the accounting for future transactions or arrangements.

<u>New and revised IFRSs</u>	<u>Summary of requirement</u>
Amendments to IAS 32 <i>Financial Instruments: Presentation</i>	The amendments provide guidance on the offsetting of financial assets and financial liabilities.
Amendments to IAS 36 <i>Impairment of Assets</i> relating to recoverable amount disclosures for non-financial assets	The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to period in which an impairment loss has been recognized or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU’s recoverable amount has been determined on the basis of fair value less costs of disposal.
Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting</i>	The amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 12 <i>Disclosure of Interests in Other Entities</i> and IAS 27 <i>Separate Financial Statements</i> - Guidance on Investment Entities	On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs. The objective of this project is to develop an exemption from the requirement to consolidate subsidiaries for eligible investment entities (such as mutual funds, unit trusts, and similar entities), instead requiring the use of the fair value to measure those investments.
IFRIC 21 Levies	This Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

3 Summary of significant accounting policies (continued)

(b) Investment in associates and joint venture

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

3 Summary of significant accounting policies (continued)

(b) Investments in associates and joint venture (continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

(c) Financial assets

The Group has the following financial assets: 'cash and bank balances', 'loans and receivables', 'fair value through profit or loss (FVTPL)', and 'fair value through other comprehensive income (FVTOCI)'. The classification depends on the nature of the financial asset and is determined at the time of initial recognition.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

3 Summary of significant accounting policies (continued)

(c) Financial assets (continued)

Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Trade and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Allowance for impairment is made against loans and receivables when their recovery is in doubt. Loans and receivables are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the condensed consolidated statement of income.

Financial assets at FVTOCI

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

3 Summary of significant accounting policies (continued)

(c) Financial assets (continued)

Financial assets at FVTOCI (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss and are included in the 'dividend income' line item in the profit and loss.

Impairment of financial assets

Financial assets, other than those at FVTOCI, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

3 Summary of significant accounting policies (continued)

(c) Financial assets (continued)

Impairment of financial assets (continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

4 Critical accounting judgments and key sources of estimation uncertainty

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2013.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

5 Property, plant and equipment

During the six months period ended 30 June 2014, the Group acquired assets with a cost of AED 51,300 thousand (30 June 2013: AED 61,854 thousand).

Out of the total assets acquired for the period, AED 30,308 thousand (30 June 2013: AED 36,362 thousand) represents construction cost of the new cement factory. This is stated net of gross profit amounting to AED 2,212 thousand (30 June 2013: AED 9,208) arising from the sale of materials produced during the period which amounted to AED 50,601 thousand (30 June 2013: AED 65,502). During the period, the Group transferred its new cement factory and new blocks factory from capital work in progress to property, plant and equipment, amounting to AED 1,673,492 thousand and AED 74,511 thousand, respectively.

The new cement factory has been pledged against a loan received from a bank for the construction of the factory.

Also during the year, capital work in progress amounting to AED 1,500 thousand has been transferred to intangible assets relating to the Group's quarrying development costs.

6 Investment in associates and a joint venture

The movement in investment in associates and a joint venture is as follows:

	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
Balance at the beginning of the period/year	212,962	210,206
Additions during the period/year	-	540
Group's share of associates' and joint venture's profits for the period/year, net	6,075	8,456
Dividends received during the period/year	(8,000)	(6,240)
Balance at the end of the period/year	<u>211,037</u>	<u>212,962</u>

Share of losses amounting to AED 1,960 thousand has been applied against the receivables from an associate and joint venture (*note 11*).

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

7 Investments	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
<i>Non-current investments</i>		
Financial assets measured at fair value through other comprehensive income (FVTOCI)	146,920	146,920
Investment revaluation reserve	(73,867)	(76,700)
Capital distribution received	(2,185)	(2,185)
	<hr/>	<hr/>
Fair value	70,868	68,035
	<hr/>	<hr/>
<i>Current investments</i>		
Financial assets measured at fair value through profit or loss (FVTPL)	357	357
	<hr/>	<hr/>

The FVTOCI investment represents an investment of AED 144,735 thousand in a real estate fund within the UAE. The investment is fully under lien to secure a term loan.

During the period, the fair value of FVTOCI investment increased by AED 2,833 thousand (30 June 2013: decreased by AED 1,685 thousand).

8 Inventories	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
Raw materials	103,133	93,162
Work in progress	84,477	74,918
Finished goods	28,592	24,067
Goods in transit	-	253
Spare parts and consumable materials	101,023	67,797
	<hr/>	<hr/>
	317,225	260,197
Less: Allowance for obsolescence	(14,079)	(11,892)
	<hr/>	<hr/>
	303,146	248,305
	<hr/>	<hr/>

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

**Notes to the condensed consolidated interim financial information
for the period ended 30 June 2014 (continued)**

8 Inventories (continued)

The movement in the allowance for inventory obsolescence is as follows:

	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
Balance at the beginning of the period/year	11,892	12,035
Impairment loss recognised	2,187	422
Write-off during the period/year	-	(565)
	<hr/>	<hr/>
Balance at the end of the period/year	14,079	11,892
	<hr/> <hr/>	<hr/> <hr/>

9 Trade and other receivables

	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
Trade receivables	386,754	276,073
Less: Allowance for impairment	(17,176)	(16,643)
	<hr/>	<hr/>
Advances to suppliers	369,578	259,430
Other receivables	19,532	17,333
	2,318	6,216
	<hr/>	<hr/>
	391,428	282,979
	<hr/> <hr/>	<hr/> <hr/>

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 June 2014 (continued)

10 Cash and bank balances

	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
Cash on hand	203	309
Cash in bank and current accounts	154,071	116,103
Short term deposits	3,678	28,802
	<hr/>	<hr/>
	157,952	145,214
Deposits with maturity of more than 3 months from date of placement	-	(20,000)
Margin deposits	(3,678)	(3,678)
	<hr/>	<hr/>
Cash and cash equivalents	154,274	121,536
	<hr/> <hr/>	<hr/> <hr/>

The short term deposits bear an interest rate of nil (2013: 0.55%) per annum. Margin deposits are held by banks against facilities provided.

11 Transactions and balances with related parties

Related parties comprise the shareholders, directors and key management of the Group and those entities in which they have the ability to control or exercise significant influence in financial and operational decisions. Balances with key related parties are as follows:

	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
<i>Due from associate and joint venture</i>		
Hobas Gulf LLC	3,289	28,594
Arkan Stonevue LLC	6,380	6,028
	<hr/>	<hr/>
	9,669	34,622
<i>Due from affiliates</i>		
Dot Modern Oman	234	234
Emirates Steel Industries PJSC	705	-
Others	19	42
	<hr/>	<hr/>
	958	276
	<hr/> <hr/>	<hr/> <hr/>

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 June 2014 (continued)

11 Transactions and balances with related parties (continued)

	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
<i>Due to parent company</i>		
General Holding Corporation PJSC (Senaat)		
Non-current	146,920	146,920
Current	10,507	10,462
	<u>157,427</u>	<u>157,382</u>
<i>Due to an affiliate</i>		
Others	302	345
	<u>302</u>	<u>345</u>

The non-current balance due to the parent company consists of an interest bearing loan. The loan is payable on 31 December 2016 and bears interest at prevailing market rates.

Transactions with related parties during the period comprise:

	3 months ended 30 June		6 months ended 30 June	
	2014 (unaudited) AED'000	2013 (unaudited) AED'000	2014 (unaudited) AED'000	2013 (unaudited) AED'000
Key management compensation				
Short term benefits	3,351	1,672	3,351	3,567
Post-employment benefits	262	115	262	321
	<u>3,613</u>	<u>1,787</u>	<u>3,613</u>	<u>3,888</u>
Cash transfers	3,613	1,787	3,613	3,888
	<u>3,613</u>	<u>1,787</u>	<u>3,613</u>	<u>3,888</u>

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

12 Borrowings

The Group has 3 term loans:

Term loan 1 of AED 90 million was obtained from an Islamic bank to fund the Group's share in real estate fund. The original maturity of the loan was 2012. The Group renegotiated the terms of the loan in 2011 and agreed on a bullet payment by 2016. The loan is secured by the Group's share in the real estate fund and bears a fixed rate of profit.

Term loan 2 was obtained by the Group to finance the construction of the Group's new cement factory. During the period, the Group utilised an additional AED 200,000 thousand from its existing credit facility. The loan carries interest at prevailing market rates and is payable at 10% of outstanding balance semiannually commencing in June 2014. The unutilised portion of the loan amounted to AED nil as at 30 June 2014 (31 December 2013: AED 200,000 thousand).

Term loan 3 of AED 14.8 million was obtained from a commercial bank for financing the cost of the new office of the Company. The loan is repayable in 36 equal quarterly installments from November 2014 at variable interest rate.

13 Trade and other payables

	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
Trade payables	179,211	123,755
Interest payable	3,798	2,677
Accruals and other payables	57,941	77,764
	<u>240,950</u>	<u>204,196</u>

14 Contingent liabilities and commitments

	30 June 2014 (unaudited) AED'000	31 December 2013 AED'000
Bank guarantees and letters of credit	24,439	43,425
Capital commitments	<u>356,747</u>	<u>389,507</u>

The above bank guarantees and letters of credit were issued in the normal course of business.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

15 Segment reporting

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Board of Directors review internal management reports on at least a quarterly basis.

The following summary describes the operations in each of the Group's reportable segments:

- Cement segment, which includes production and sale of cement;
- Blocks segment, which includes production and distribution of blocks;
- Pipes segment, which includes the production and sale of Poly-Vinyl Chloride ("PVC") Pipes and Glass Reinforced Polyester ("GRP") Pipes; and
- Bags segment, which includes production and sale of paper bags.

Information regarding the results of each reportable segment is included below. Performance is measured on segment profit as included in the internal management reports that are reviewed by the Group's CEO and Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information
for the period ended 30 June 2014 (continued)

15 Segment reporting (continued)

For the period ended 30 June 2014 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	261,970	32,543	19,760	31,636	20,716	-	-	366,625
Intersegment revenue	9,388	-	-	-	2,461	-	(11,849)	-
Profit for the period	26,198	1,851	165	169	1,713	-	-	30,096

As at 30 June 2014 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Total assets	2,009,777	220,615	134,134	122,196	88,353	1,941,819	(823,867)	3,693,027
Total liabilities	313,002	136,226	27,085	30,512	39,922	2,083,448	(673,392)	1,956,803

As at 30 June 2014, included within unallocated assets is AED 78,728 thousand being construction work in progress, which primarily relates to dry mortar and phase 2 and phase 3 of the new cement factory. All construction work in progress will be allocated to the respective segments once completed.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

**Notes to the condensed consolidated interim financial information
for the period ended 30 June 2014 (continued)**

15 Segment reporting (continued)

For the period ended 30 June 2013 (unaudited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
External revenues	84,669	37,613	13,997	36,196	21,446	-	-	193,921
Intersegment revenue	6,054	-	-	-	1795	-	(7,849)	-
Profit/(loss) for the period	16,802	1,282	(4,232)	2,353	1,932	(706)	-	17,431

As at 31 December 2013 (audited):

	Cement AED'000	Blocks AED'000	GRP pipes AED'000	PVC pipes AED'000	Bags AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Total assets	317,400	165,280	113,389	114,367	63,137	3,565,163	(833,247)	3,505,489
Total liabilities	105,893	28,296	29,398	18,097	34,914	2,078,658	(493,062)	1,802,194

As at 31 December 2013, included within unallocated assets is AED 1,826,319 thousand being construction work in progress, which primarily relates to the new cement factory. All construction work in progress will be allocated to the respective segments once completed.

ARKAN BUILDING MATERIALS COMPANY (ARKAN) PJSC

Notes to the condensed consolidated interim financial information for the period ended 30 June 2014 (continued)

16 Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated statement of profit or loss for the six-month periods ended 30 June 2014 and 30 June 2013.

17 Basic and diluted earnings per share attributable to Owners of the Company

The following reflects the profit and share data used in the earnings per share computations:

	3 months ended 30 June		6 months ended 30 June	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Profit attributable to equity holders of the Company (AED'000)	16,792	7,806	30,096	17,431
Weighted average number of shares in issue (thousands of shares)	1,750,000	1,750,000	1,750,000	1,750,000
Earnings per share (AED)	0.010	0.004	0.017	0.010

There were no potentially dilutive securities as at 30 June 2014 or 30 June 2013, and accordingly, diluted earnings per share are the same as basic earnings per share.

18 Comparative information

Certain comparative figures have been reclassified, where necessary, to conform with the presentation adopted in these condensed consolidated interim financial information.

19 Date of authorisation for issue

The interim financial information was approved by the Company's Board of Directors and authorised for issue on 13 August 2014.