# DELMON POULTRY COMPANY BSC

## FINANCIAL STATEMENTS

## 31 DECEMBER 2010

**FINANCIAL STATEMENTS**
**for the year ended 31 December 2010**

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## GENERAL INFORMATION
**2010 financial statements**

| | | |
|---|---|---|
| Commercial registration | : | 10700 (Bahrain joint stock company) |
| Board of directors | : | Yousef Saleh Al-Saleh *(Chairman)*<br>Abdul Nabi Nasser Salman *(Vice chairman)*<br>Jaffar Habib Ahmed<br>Abdul-Rahman Mohamed Jamsheer<br>Abdulredha Mohamed Al-Daylami<br>Abdulhussain Khalil Dawani<br>Ibrahim Abdali Al-Daissi<br>Jaffar Mohamed Ali Al-Dhaif<br>Talal Mohamed Al-Mannai |
| Executive Committee | : | Yousef Saleh Al-Saleh *(Chairman)*<br>Abdul Nabi Naser Salman *(Vice chairman)*<br>Jaffar Habib Ahmed<br>Abdul-Rahman Mohamed Jamsheer |
| Audit Committee | : | Abdulredha Mohamed Al-Daylami *(Chairman)*<br>Abdulhussain Khalil Dawani<br>Ibrahim Abdali Al-Daissi<br>Talal Mohamed AL-Manni |
| General Manager | : | Abdul-Karim Ismaeel Al -Alawi |
| Offices and plants | : | Administration and chicken processing plant<br>Hamala, PO Box 20535<br>Telephone 17608282<br>Fax 17601930<br>Email depco@batelco.com.bh |
| | : | Feedmill - Mina Salman<br>Telephone 17727705 |
| | : | Chick hatchery - Al-Buhair<br>Telephone 17624832 |
| Principal bankers | : | Ahli United Bank<br>Bahrain Islamic Bank<br>Bank of Bahrain and Kuwait<br>National Bank of Bahrain |
| Auditors | : | KPMG |
| Share registrar | : | Bahrain Share Registration Company |

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS** 20 February 2011
**Delmon Poultry Company BSC**
Al-Hamala, Kingdom of Bahrain

## Report on the financial statements

We have audited the accompanying financial statements of Delmon Poultry Company BSC ("the Company"), which comprise the statement of financial position as at 31 December 2010, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Responsibility of the board of directors for the financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

*Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law , we report that the Company has maintained proper accounting records and the financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Company or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

**STATEMENT OF FINANCIAL POSITION**
**as at 31 December 2010** Bahraini dinars

| | Notes | **2010** | 2009 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and bank | | 470,545 | 453,133 |
| Short-term fixed deposits | | 4,058,399 | 3,410,631 |
| Trade receivables | 3 | 766,168 | 723,325 |
| Accrued income and other receivables | 4 | 258,986 | 319,509 |
| Inventories | 5 | 1,831,041 | 1,482,686 |
| **Total current assets** | | **7,385,139** | 6,389,284 |
| **NON-CURRENT ASSETS** | | | |
| Available for sale investments | 6 | 5,189,142 | 4,996,286 |
| Held to maturity investments | 7 | - | 919,630 |
| Investment in associate company | 8 | 1,515,623 | 1,163,900 |
| Property, plant and equipment | 9 | 466,617 | 445,147 |
| **Total non-current assets** | | **7,171,382** | 7,524,963 |
| **TOTAL ASSETS** | | **14,556,521** | 13,914,247 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | | 85,181 | 94,759 |
| Accrued expenses and other current liabilities | 10 | 489,005 | 422,796 |
| **Total current liabilities** | | **574,186** | 517,555 |
| **NON-CURRENT LIABILITIES** | | | |
| Provision for labour law obligations | | 107,469 | 131,081 |
| **TOTAL LIABILITIES** | | **681,655** | 648,636 |
| **EQUITY** | | | |
| Share capital | 11 | 3,069,097 | 2,922,217 |
| Reserves | | 8,662,150 | 8,281,626 |
| Retained earnings | | 2,143,619 | 2,061,768 |
| **Total equity** (pages 6 & 7) | | **13,874,866** | 13,265,611 |
| **Total Liabilities and equity** | | **14,556,521** | 13,914,247 |

The financial statements were approved by the board of directors on 20 February 2011 and signed on its behalf by:

Yousuf Saleh Al-Saleh
*Chairman*

Abdulnabi Nasser Salman
*Vice chairman*

These financial statements consist of pages 3 to 30.

## INCOME STATEMENT
**for the year ended 31 December 2010**

Bahraini dinars

| | Notes | 2010 | 2009 |
|---|---|---|---|
| **SALES** | 12 | 12,435,971 | 10,948,239 |
| Cost of sales | 12,13 | (12,536,480) | (10,675,257) |
| **GROSS (LOSS) /PROFIT** | | **(100,509)** | 272,982 |
| OTHER OPERATING EXPENSES | 14 | (510,000) | (382,561) |
| GOVERNMENT GRANT | 15 | 948,869 | 1,156,241 |
| **OPERATING PROFIT** | | **338,360** | 1,046,662 |
| OTHER INCOME / (EXPENSES) | | | |
| Investment income | 16 | 340,568 | 331,547 |
| Share of profit / (loss) in associate | 8 | 311,225 | (107,003) |
| Provision for impairment of AFS investments | 6 | (18,350) | (36,776) |
| Other income | | 19,982 | 72,332 |
| **NET PROFIT FOR THE YEAR** | | **991,785** | 1,306,762 |
| **Earning per share** | 17 | 32 fils | 44 fils |

The financial statements were approved by the board of directors on 20 February 2011 and signed on its behalf by:

Yousuf Saleh Al-Saleh
*Chairman*

Abdulnabi Nasser Salman
*Vice chairman*

These financial statements consist of pages 3 to 30.

## STATEMENT OF COMPREHENSIVE INCOME
**for the year ended 31 December 2010**

Bahraini dinars

| | 2010 | 2009 |
|---|---|---|
| **Profit for the year** | **991,785** | 1,306,762 |
| **Other comprehensive income:** | | |
| Fair value reserve (AFS investments): | | |
| Change in investments fair value | 229,758 | (355,482) |
| Company's share of the associate's net change in fair value of the investments and charity reserve | 40,497 | 60,384 |
| Transferred to income statement as a result of AFS impairment | 18,350 | 36,776 |
| Reserve transferred to income statement upon sale of AFS investment | 6,384 | 91,119 |
| **Other comprehensive income for the year** | **294,989** | (167,203) |
| **Total comprehensive income for the year** | **1,286,774** | 1,139,559 |

**STATEMENT OF CHANGES IN EQUITY**
**for the year ended 31 December 2010**

Bahraini dinars

| **2010** | **Share capital** | **Treasury shares** | **Statutory reserve** | **General reserve** | **Development and raw material reserve** | **Investments fair value reserve** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|---|---|---|
| As at 1 January | 2,974,048 | (51,831) | 1,417,570 | 3,993,000 | 1,000,000 | 1,871,056 | 2,061,768 | 13,265,611 |
| **Profit for the year** | - | - | - | - | - | - | 991,785 | 991,785 |
| **Other comprehensive income:** | | | | | | | | |
| Fair value reserve (AFS investments): | | | | | | | | |
| Change in investments fair value | - | - | - | - | - | 229,758 | - | 229,758 |
| Company's share of the associate's net change in fair value of the investments and charity reserve | - | - | - | - | - | 26,853 | 13,644 | 40,497 |
| Transferred to income statement as a result of AFS impairment | - | - | - | - | - | 18,350 | - | 18,350 |
| Reserve transferred to income statement upon sale of AFS investment | - | - | - | - | - | 6,384 | - | 6,384 |
| **Total other comprehensive income for the year** | **-** | **-** | **-** | **-** | **-** | **281,345** | **13,644** | **294,989** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **-** | **-** | **281,345** | **1,005,429** | **1,286,774** |
| Increase in capital (Note 11) | 146,880 | - | - | - | - | - | (146,880) | - |
| Dividend paid for 2009 | - | - | - | - | - | - | (587,519) | (587,519) |
| Directors' remuneration paid for 2009 | - | - | - | - | - | - | (90,000) | (90,000) |
| Transfer to statutory reserve | - | - | 99,179 | - | - | - | (99,179) | - |
| **At 31 December** | **3,120,928** | **(51,831)** | **1,516,749** | **3,993,000** | **1,000,000** | **2,152,401** | **2,143,619** | **13,874,866** |

These financial statements consist of pages 3 to 30.

**STATEMENT OF CHANGES IN EQUITY**
**for the year ended 31 December 2010**

Bahraini dinars

| 2009 | Share capital | Treasury shares | Statutory reserve | General reserve | Development and raw material reserve | Investments fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|---|
| As at 1 January | 2,974,048 | (49,520) | 1,286,894 | 3,993,000 | 1,000,000 | 2,038,259 | 1,564,629 | 12,807,310 |
| Profit for the year | - | - | - | - | - | - | 1,306,762 | 1,306,762 |
| Other comprehensive income: | | | | | | | | |
| Fair value reserve (AFS investments): | | | | | | | | |
| Change in investments fair value | - | - | - | - | - | (355,482) | - | (355,482) |
| Net change in fair value of investment in associate | - | - | - | - | - | 60,384 | - | 60,384 |
| Transferred to income statement as a result of AFS impairment | - | - | - | - | - | 36,776 | - | 36,776 |
| Reserve transferred to income statement upon sale of AFS investment | - | - | - | - | - | 91,119 | - | 91,119 |
| Total other comprehensive income for the year | - | - | - | - | - | (167,203) | - | (167,203) |
| Total comprehensive income for the year | - | - | - | - | - | (167,203) | 1,306,762 | 1,135,559 |
| Adjustments related to investment in associate | - | - | - | - | - | - | (87,239) | (87,239) |
| Dividend paid for 2008 | - | - | - | - | - | - | (528,951) | (528,951) |
| Directors' remuneration paid for 2008 | - | - | - | - | - | - | (62,757) | (62,757) |
| Purchase of treasury shares | - | (2,311) | - | - | - | - | - | (2,311) |
| Transfer to statutory reserve | - | - | 130,676 | - | - | - | (130,676) | - |
| At 31 December | 2,974,048 | (51,831) | 1,417,570 | 3,993,000 | 1,000,000 | 1,871,056 | 2,061,768 | 13,265,611 |

The financial statements consist of pages 3 to 30.

## STATEMENT OF CASH FLOWS
**for the year ended 31 December 2010** Bahraini dinars

| | 2010 | 2009 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Cash received from customers | 10,145,063 | 9,515,616 |
| Subsidies received from Bahrain Government | 1,682,902 | 1,962,575 |
| Payments to suppliers | (9,959,144) | (8,796,718) |
| Payments to employees and others | (1,723,088) | (1,494,596) |
| **Cash flows from operating activities** | **145,733** | 1,186,877 |
| **INVESTING ACTIVITIES** | | |
| Purchase of equipment | (107,655) | (10,328) |
| Proceeds from maturity of Held-to-Maturity investments | 1,033,346 | - |
| Proceeds from sale of available for sale investments | 12,990 | 622,050 |
| Purchase of available for sale investments | (83,421) | (37,276) |
| Proceeds from sale of fixed assets | 6,303 | - |
| Interest and dividends received | 327,850 | 368,446 |
| Dividends received from an associate | - | 111,804 |
| **Cash flows from investing activities** | **1,189,413** | 1,054,696 |
| **FINANCING ACTIVITIES** | | |
| Dividends paid | (579,966) | (490,446) |
| Directors' remuneration paid | (90,000) | (62,757) |
| Purchase of treasury shares | - | (2,311) |
| **Cash flows from financing activities** | **(669,966)** | (555,514) |
| **Net increase in cash and cash equivalents** | **665,180** | 1,686,059 |
| CASH AND CASH EQUIVALENTS at beginning of the year | 3,863,764 | 2,177,705 |
| **CASH AND CASH EQUIVALENTS at end of the year** | **4,528,944** | 3,863,764 |
| Comprising: | | |
| Cash and bank | 470,545 | 453,133 |
| Short-term fixed deposits | 4,058,399 | 3,410,631 |
| | **4,528,944** | 3,863,764 |

These financial statements consist of pages 3 to 30.

## 1 STATUS AND OPERATIONS

Delmon Poultry Company BSC is a public joint stock company, established by Amiri Decree 2/1980.

**The principal objects** of the company include establishing or investing in:

- Facilities for processing, packing and storing frozen chicken;
- Feed factories;
- Integrated project for broiler meat;
- Distribution network affording easy accessibility for consumers; and
- Similar or supporting activities in Bahrain or abroad.

The company also is allowed to invest its surplus funds in all types of investments.

**Current operations**, all in Bahrain, are as follows:

- Chicken processing plant at Hamala
- Feedmill at Mina Salman
- Chicks hatchery at Al-Buhair

## 2 SIGNIFICANT ACCOUNTING POLICIES

### a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and Bahrain Commercial companies Law of 2001.

### b) Basis of preparation

The financial statements are prepared on the historical cost basis except for available-for-sale investments which are stated at fair value. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

### c) Standards, amendments and interpretations effective on or after 1 January 2010

**Improvements to IFRSs (2009)**

Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. ‘Improvements to IFRS’ comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. There were no material changes to the current accounting policies of the Company as a result of these amendments.

### d) New Standards, amendments and interpretations issued but not yet effective

The following standards and interpretations have been issued and are expected to be relevant to the company but not yet effective for the year ended 31 December 2010.

*2 Significant accounting policies (continued)*

**(i) IFRS9 'Financial Instruments'**

***Standard issued November 2009***

IFRS 9 "Financial Instruments" is the first standard issued in November 2009 as part of a wider project to replace IAS 39 "Financial instruments: recognition and measurement". IFRS 9 retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The standard did not address financial liabilities.

***Standard issued October 2010***

IFRS 9 adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 *"reassessment of Embedded Derivatives*"

The company is yet to assess IFRS9's full imapct. Given the nature of the company's operations, this standard is expected to have a pervasive impact on the company's financial statements.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.

**(ii) IAS 24 (Revised) "related party disclosures"**
It was issued in November 2009 and is mandatory for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. There will be certain changes to the related party disclosure as a result of the revised standard.

**(iii) Improvements to IFRSs(2010)**
Improvements to IFRS issued in 2010 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Company's 2011 annual financial statements with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments

**(iv) Early adoption of standards**
The company did not early-adopt new or amended standards in 2009 or 2010.

*3 Significant accounting policies (continued)*

**e) Revenue recognition**
Income from sales of chickens & feeds are recognised when a customer becomes entitled to receive the goods. Income from sales of chicks is recognized once the chicks are delivered to the farms. Income from investments is accounted for when dividends are declared. Bank interest is recognised on accrual basis.

**f) Other operating expenses**
Overhead expenses are allocated to chicken, feed and chicks on the basis of cost of sales.

**g) Government grant**
Government grant related to sales of chickens and feeds in Bahrain which are received against sale price fixing are recognised in the income statement as other operating revenue when the grant becomes receivable. Government subsidy toward farmers' production of chickens upon receipt of live chickens from farmers and treat it as a reduction from cost of sales.

**h) Inventories**
These are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The cost of the inventory is based on weighted average principle. Cost includes purchases price, freight, custom duty and direct labour charge and other incidental costs.

**i) Foreign currency**

***(i) Functional and presentation currency***
Items included in the financial statements of the Company are measured using Bahraini Dinars ('the functional currency'). The financial statements are presented in Bahraini Dinars, which is the Company's presentation currency.

***(ii) Transactions and balances***
Monetary assets and liabilities are translated into Bahraini Dinars at exchange rates ruling at the reporting date. Transactions in foreign currencies during the year are converted at the rate ruling at that time. Foreign exchange gains and losses are recognized in the income statement. Translation differences for non-monetary items, such as equities classified as available-for-sale investments, are included in a fair value reserve in equity.

**j) Operating leases contracts**
Payments for operating lease contracts are recorded as expenses in the income statement according to the terms of these contracts.

**k) Investment in associated company**
Associate is the entity in which the Company has significant influence by owning not less than 20% of the voting rights, but not control, over the financial and operating policies. Investments in associate companies are initially accounted for at cost, then any increase or decrease in the gains or losses of the investor's shares is accounted for after the date of purchase. Dividends received from associate companies reduce the book value of the investment. When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate.

*2 Significant accounting policies (continued)*

### l) Investment securities

***I. Classification***

Held-to-maturity securities are non-derivative assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity, and which are not designated at fair value through income statement or available-for-sale.

Available-for-sale securities are non-derivative investments that are not designated as Held-to-maturity securities. These include investments in certain quoted and unquoted equity securities and certain managed funds.

***II. Recognition and derecognition***

Investment securities are recognised when the Company becomes a party to the contractual provisions of the instrument. Investment securities are derecognised if the Company's contractual rights from the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

All "regular way" purchases and sales of financial assets are recognised on trade date, i.e. the date that the Company contracts to purchase or deliver the asset. Regular way purchases or sale are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

***III. Measurement***

Available-for-sale securities (AFS securities) are initially measured at cost, being their fair value, including transaction costs. Unquoted AFS equity securities whose fair value cannot be reliably measured are carried at cost less impairment allowance. All other AFS securities are carried at fair value. Unrealised gains and losses arising from revaluation are recognised in a reserve as a separate component of other comprehensive income. In the event of sale, disposal, collection or impairment, the cumulative gains and losses recognised in the revaluation reserve are transferred to the income statement.

Held-to-maturity securities are initially measured at their cost, being their fair value including transaction costs. They are subsequently carried at amortised cost using the effective interest method.

***IV. Amortised cost measurement***

The amortised cost of a financial asset or liability is the amount at which the investment securities is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

***V. Fair value measurement principles***

The determination of fair values of investment securities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets.

*2 Significant accounting policies (continued)*

***VI. Impairment of AFS securities***

The Company assesses at each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the market value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equity securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed through the income statement.

Impairment losses on held-to-maturity securities carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in income statement and reflected in an allowance against the investment. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the income statement.

**m) Trade receivables**

Trade receivables are stated at cost, being fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. A provision is made when the carrying amount of the asset exceeds the present value of the estimated future cash flows, discounted at the effective interest rate.

**n) Provisions**

A provision is recognised at the reporting date when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**o) Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset carrying amount is greater than its estimated recoverable amount.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense when incurred.

**p) Depreciation**

Depreciation is calculated on cost by the straight-line method at annual rates which are intended to write off the cost of the assets over their estimated useful working lives as followings:

| | |
|---|---|
| Building (on leased land) | 20 years |
| Plant and machinery | 10 years |
| Furniture, vehicles, tools and equipment | 2-5 years |

All depreciation is charged to the income statement. When an asset is sold or otherwise retired, the cost and related accumulated depreciation are removed and any resultant gain or loss is taken to the income statement

*2 Significant accounting policies (continued)*

**q) Reserves**

**i) Statutory reserve**
In accordance with the company's Articles of Association and the Bahrain Commercial Companies Law 2001, 10 percent of the net profit is appropriated to a statutory reserve, until it reaches 50 percent of the paid-up share capital. This reserve is not normally distributable except under certain circumstances specified by the law.

**ii) Development reserve**
This is a distributable general reserve intended to fund future capital expenditure.

**iii) Raw materials fluctuation reserve**
This reserve has been recommended to confront the sudden world-wide increase in raw material prices. There are no restrictions on the distributions of this reserve.

**r) Treasury shares**
Where the Company purchases its own equity share capital, the consideration paid, including any attributable transaction costs, are deducted from total equity and recorded as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any gain or loss is included in equity.

**s) Impairment**
The carrying amount of the company's assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

**t) Cash and cash equivalents**
This comprises cash in hand and at banks and short-term deposits maturing within 90 days. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**u) Proposed appropriations**
Dividends and other proposed appropriations are recognised as liability in the period in which they are declared by the shareholders.

**v) Board members' remuneration**
Board members' remuneration is recognized in the income statement on accrual basis.

**w) Employees' end of service benefits**
**(i) Bahraini employees**
Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Company's contribution to this scheme, which represents a defined contribution scheme under International Accounting Standard 19 – Employee Benefits, is expensed as incurred.

**(ii) Expatriate employees**
Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the reporting date.

## 3 TRADE RECEIVABLES

| | **2010** | 2009 |
|---|---|---|
| Balance at 31 December | 770,891 | 725,777 |
| Provision for impairment | (4,723) | (2,452) |
| **Balance at 31 December** | **766,168** | 723,325 |

The provision for impairment is used to recognise the impairment losses in trade receivables, unless he company believes that it cannot collect these amounts. In this case, these amounts are considered uncollectible and directly written off from the financial assets. The movement in the provision for impairment was as follows:

| | **2010** | 2009 |
|---|---|---|
| In 1 January | 2,452 | 45,207 |
| Charge for the year | 3,054 | 6,719 |
| Write off during the year | (783) | (49,474) |
| **Balance at 31 December** | **4,723** | 2,452 |

## 4 ACCRUED INCOME AND OTHER RECEIVABLES

| | **2010** | 2009 |
|---|---|---|
| Accrued income | 179,586 | 276,477 |
| Advances to suppliers | 77,592 | 33,595 |
| Prepaid expenses | 10,874 | 10,053 |
| Others | 11,493 | 19,943 |
| | 279,545 | 340,068 |
| Less – impairment provision | (20,559) | (20,559) |
| **Balance at 31 December** | **258,986** | 319,509 |

## 5 INVENTORIES

| | **2010** | 2009 |
|---|---|---|
| Finished goods | | |
| - Feed | 17,857 | 15,564 |
| - Frozen/chilled chicken | 7,018 | 26,894 |
| Hatching eggs - hatchery | 99,383 | 86,239 |
| Raw material and packing materials | 1,291,326 | 938,675 |
| Spare parts for plant and machinery | 415,793 | 446,931 |
| | 1,831,377 | 1,514,303 |
| Provision for impairment | (336) | (31,617) |
| | **1,831,041** | 1,482,686 |

**NOTES**
**to the 2010 financial statements** Bahraini dinars

*5 INVENTORIES (continued)*

*The movement in provision for impairment was as follows:*

| | **2010** | 2009 |
|---|---|---|
| In 1 January | 25,382 | 20,647 |
| Charge for the year | 336 | 18,728 |
| Written-off during the year | (25,382) | (13,993) |
| **At 31 December** | **336** | 25,382 |

## 6 AVAILABLE-FOR-SALE INVESTMENTS

| | **2010** | 2009 |
|---|---|---|
| ***Classification:*** | | |
| Quoted equity securities- at fair value | 2,814,633 | 2,576,768 |
| Unquoted equity securities - at cost, after deducting impairment allowance | 233,534 | 208,827 |
| Managed funds | 2,140,975 | 2,210,691 |
| | **5,189,142** | 4,996,286 |
| ***Movement:*** | | |
| At 1 January | 4,996,286 | 5,958,523 |
| Purchase of AFS investments | 83,421 | 37,276 |
| Sale of AFS investments | (126,706) | (735,150) |
| Net change in fair value reserve | 236,141 | (264,363) |
| **At 31 December** | **5,189,142** | 4,996,286 |

Impairment loss provision for AFS investments has been recognized for BD 18,350 in the current year (2009: 36,776) and has been transferred from fair value reserve to income statement.

## 7 HELD-TO-MATURITY INVESTMENTS

| | **2010** | 2009 |
|---|---|---|
| Unquoted Government Bonds | - | 481,130 |
| Unquoted Commercial Companies Bonds | - | 438,500 |
| | - | 919,630 |

During the year, all Held-to-maturity investments of a total BD 919,630 have been matured.

## 8 INVESTMENT IN ASSOCIATE COMPANY

| | **Carrying amount** | **Goodwill** | **2010** | 2009 |
|---|---|---|---|---|
| At 1 January | 1,102,816 | 61,084 | 1,163,900 | 1,409,562 |
| Movement during the year: | | | | |
| Share of company in (loss) / profit for the year | 311,225 | - | 311,225 | (107,003) |
| Company's share of the associate's net change in fair value of the investments and charity reserve | 40,498 | - | 40,498 | 60,384 |
| Dividends received | - | - | - | (111,804) |
| Other adjustments | - | - | - | (87,239) |
| **At 31 December** | **1,454,539** | **61,084** | **1,515,623** | 1,163,900 |

The company owns 33% share in Bahrain Livestock Company BSC (closed). In applying the equity method; the last Management Accounts as of 31 December 2010 have been used, which included the following data:

| **SUMMARY OF FINANCIAL INFORMATION OF ASSOCIATE** | **2010** | 2009 |
|---|---|---|
| Current assets | 11,911,568 | 9,606,544 |
| Non-current assets | 262,713 | 346,017 |
| **Total assets** | **12,174,281** | 9,952,561 |
| Current liabilities | 8,163,279 | 6,911,462 |
| **Total liabilities** | **8,163,279** | 6,911,462 |
| Revenues | 49,477,892 | 38,793,710 |
| Expenses | 48,619,661 | 39,088,779 |
| **Net profit / (loss)** | **858,231** | (295,069) |

## 9 PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Vehicles furniture, and tools | Work in progress | **2010 Total** | 2009 Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At beginning of year | 3,450,118 | 4,346,104 | 1,605,660 | 970 | 9,402,852 | 9,387,309 |
| Additions | 34,400 | 31,365 | 77,107 | - | 142,872 | 47,529 |
| Disposals | (9,600) | - | (49,347) | (86) | (59,033) | (31,988) |
| **At 31 December** | **3,474,918** | **4,377,469** | **1,633,420** | **884** | **9,486,691** | 9,402,850 |
| **Depreciation** | | | | | | |
| At beginning of year | 3,264,233 | 4,173,985 | 1,519,487 | - | 8,957,705 | 8,864,351 |
| Charge for the year | 37,465 | 33,930 | 40,321 | - | 111,716 | 121,267 |
| Disposals | - | - | (49,347) | - | (49,347) | (27,915) |
| **At 31 December** | **3,301,698** | **4,207,915** | **1,510,461** | **-** | **9,020,074** | 8,957,703 |
| **Net carrying value** | | | | | | |
| **At 31 December 2009** | **173,220** | **169,554** | **122,959** | **884** | **466,617** | 445,147 |
| At 31 December 2008 | 185,887 | 172,119 | 86,171 | 970 | 445,147 | |

The reclaimed land at Minaa Salman on which the feedmill was built and the land at Hamala on which the administration and the slaughterhouse, and the land at Buhair on which chicks hatchery is built are all owned by the Government.

## 10 ACCRUED EXPENSES AND OTHER LIABILITIES

| | **2010** | 2009 |
|---|---|---|
| Unclaimed declared dividends (1986-2009) | 156,458 | 148,864 |
| Payments received in advance from farmers | 62,066 | 82,285 |
| Accrued expenses | 23,303 | 25,781 |
| Miscellaneous payables | 247,178 | 165,866 |
| | **489,005** | 422,796 |

## 11 SHARE CAPITAL

| | **2010** | 2009 |
|---|---|---|
| **Issued and fully paid**: 31,209,277 shares of 100 fils each | 3,120,928 | 2,974,048 |
| Authorised: BD 10 million | | |
| 364,539 treasury shares (2009: 364,539) | (51,831) | (51,831) |
| **Net shares in public issue** | **3,069,097** | 2,922,217 |

During the extraordinary AGM held on 24th March 2010, the shareholders approved the issue of bonus shares at the percentage of 5% of the total issued share capital, being 1 share for every 20 shares owned, which has led to increase the fully issued and paid up capital from 29,740,480 shares to 31,209,277 shares at 100 fils per share.

*11. Share Capital (continued)*

| **Performance per share** | | |
|---|---|---|
| Earnings per 100 fils share | 32 fils | 44 fils |
| Net asset value per 100 fils share | 472 fils | 452 fils |
| Stock Exchange price per 100 fils share at 31 December | 215 fils | 226 fils |
| Stock Exchange price to earnings ratio | 7:1 | 5:1 |
| Total market capitalisation at 31 December | 6,631,619 | 6,638,963 |

***Additional information on shareholding pattern***

(i) Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest on 5% or more of outstanding shares as at 31 December 2010:

| | **Nationality** | **No. of shares** | **% holding** |
|---|---|---|---|
| Social Insurance Organization | Bahraini | 6,002,032 | 19.23 |
| General Poultry Company | Bahraini | 4,576,383 | 14.66 |
| General Trading & Food Processing Company | Bahraini | 3,054,366 | 9.79 |
| Abdulhameed Zainl Mohammed | Bahraini | 2,015,231 | 6.46 |
| Fuad Ebrahim Al Mutawa | Bahraini | 1,862,295 | 5.97 |

(ii) The company has only one class of equity share and the holders of these shares have equal voting rights.

(iii) Distribution of the directors holding:

| **Number of shares held** | **Between 0 and 99,999 shares** | **Between 100,000 and 499,999 shares** | **Between 500,000 and 2,000,000 shares** | **Above 2,000,000 shares** |
|---|---|---|---|---|
| Number of directors | - | 8 | - | - |

The ninth board member is a representative appointed by one of the major shareholders, therefore having no shares in his personal name.

(vi) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

| **Categories*** | **Number of Shares** | **Number of shareholders** | **% of total outstanding shares** |
|---|---|---|---|
| Less than 1% | 9,721,198 | 1,539 | 31,15 |
| 1% up to less than 5% | 3,977,772 | 8 | 12,75 |
| 5% up to less than 10% | 6,931,892 | 3 | 22,21 |
| 10% up to less than 20% | 10,578,415 | 2 | 33,89 |
| | **31,209,277** | **1,552** | **100,00** |

*Expressed as a percentage of total outstanding shares of the Company.

## 12 SEGMENTAL ANALYSIS

The Company is organised into four main business segments: Chicken, Feed, Chicks and Investments.

The Company operates in Bahrain only.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit /or (loss) as included in the internal management reports that are reviewed by the Company's General Manager. Segment profit /or (loss) 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.

Segment assets include all operating assets used by a segment and consist primarily of accounts receivable, net of impairment provision inventories and property, plant and equipment. Whilst the majority of assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to segments on a reasonable basis.

Segment liabilities include all operating liabilities and consist principally of accounts payable and accrued expenses.

| 2010 | Chicken | | Feeds | | Chicks | | Investments | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Revenue from external customers | 6,838,284 | 5,984,355 | 3,958,266 | 3,717,944 | 1,639,421 | 1,245,940 | - | - | - | - | 12,435,971 | 10,948,239 |
| Profit / (Loss) from associate | - | - | - | - | - | - | 311,225 | (107,003) | - | - | 311,225 | (107,003) |
| Investment income | - | - | - | - | - | - | 340,568 | 331,547 | - | - | 340,568 | 331,547 |
| Government grant | 579,210 | 613,031 | 369,659 | 543,210 | - | - | - | - | - | - | 948,869 | 1,156,241 |
| Other income | 8,053 | 8,403 | 3,837 | 57,220 | 21 | 3,867 | - | - | 8,071 | 2,842 | 19,982 | 72,332 |
| **Total segment revenues** | **7,425,547** | 6,605,789 | **4,331,762** | 4,318,374 | 1**,639,442** | 1,249,807 | **651,793** | 224,544 | **8,071** | 2,842 | **14,056,615** | 12,401,356 |
| Cost of sales | 6,635,233 | 5,772,530 | 4,132,360 | 3,639,057 | 1,768,887 | 1,263,670 | - | - | - | - | 12,536,480 | 10,675,257 |
| Other operation costs | 263,226 | 200,141 | 163,934 | 126,170 | 70,173 | 43,813 | - | - | 12,667 | 12,437 | 510,000 | 382.561 |
| Impairment of assets | - | - | - | - | - | - | 18,350 | 36,776 | - | - | 18,350 | 36,776 |
| **Total segment costs** | **6,898,459** | 5,972,671 | **4,296,294** | 3,765,227 | **1,839,060** | 1,307,483 | **18,350** | 36,776 | **12,667** | 12,437 | **13,064,830** | 11,094,594 |
| **Segment profit / (loss)** | **527,088** | 633,118 | **35,468** | 553,147 | **(199,618)** | (57,676) | **633,443** | 187,768 | **(4,596)** | (9,595) | **991,785** | 1,306,762 |
| **Segment assets** | **1,033,782** | 1,098,103 | **1,695,707** | 1,280,886 | **525,093** | 403,659 | **6,731,394** | 7,190,653 | **4,570,545** | 3,940,946 | **14,556,521** | 13,914,247 |
| **Segment liabilities** | **194,119** | 25,988 | **138,646** | 121,172 | **47,507** | 44,771 | **-** | - | **301,383** | 456,705 | **681,655** | 648,636 |

## 13 COST OF SALES

| | Chicken | Feed | Chicks | **Total 2010** | Total 2009 |
|---|---|---|---|---|---|
| Raw materials | 5,916,017 | 3,671,269 | 1,552,749 | 11,140,035 | 9,471,227 |
| Staff cost | 1,003,523 | 317,804, | 125,194 | 1,446,521 | 1,299,558 |
| Depreciation | 57,899 | 11,921 | 28,256 | 98,076 | 108,830 |
| Other | 378,250 | 131,366 | 62,688 | 572,304 | 428,850 |
| Less: Farmers' subsidy * | (720,456) | - | - | (720,456) | (633,208) |
| **Total** | **6,635,233** | **4,132,360** | **1,768,887** | **12,536,480** | 10,675,257 |

* Government grant for farmers production of broiler chickens which is transferred to the Company is based on 100 fils/KG.

## 14 OTHER OPERATING EXPENSES

| | **2010** | 2009 |
|---|---|---|
| Staff cost | 245,360 | 232,386 |
| Depreciation | 12,667 | 12,437 |
| Other | 251,973 | 137,738 |
| **Total** | **510,000** | 382,561 |

## 15 GOVERNMENT GRANT

The Government of Bahrain provides grant to the Company of 100 fils (2009: 100 fils) for every KG sold locally in order to maintain the sale price stabilized. Moreover, it provides the Company with grant on local sales of feeds to farmers of broiler chickens of BD 18 per ton (2009: 30) in order to stabilize the selling prices of feeds to the farmers of broiler chickens.

The following table shows the details of Government subsidy:

| **Subsidy type** | **2010** | 2009 |
|---|---|---|
| Subsidy for sales of chickens | 579,210 | 613,031 |
| Subsidy for sales of feeds | 369,659 | 543,210 |
| **Total Government subsidy** | **948,869** | 1,156,241 |

## 16 INVESTMENT INCOME

| | **2010** | 2009 |
|---|---|---|
| Profit on sale of AFS investments | 10,162 | 73,232 |
| Interest income | 175,295 | 95,632 |
| Dividend income | 155,111 | 162,683 |
| | **340,568** | 331,547 |

## 17 EARNING PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of equity shares outstanding during the year ended 31 December 2010 as follows:

| | **2010** | 2009 |
|---|---|---|
| Profit for the year | 991,785 | 1,306,762 |
| Weighted average number of equity shares | 30,844,738 | 29,375,941 |
| Basic earnings per share | 32 fils | 44 fils |

Diluted earnings per share have not been presented as the Company has no instruments convertible into ordinary shares that would dilute earnings per share.

## 18 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Company exercises significant influence, major shareholders, directors and executive management of the Company.

Transactions with entities controlled by directors, or over which they exert significant influence, are conducted on a normal commercial basis.

| | **2010** | 2009 |
|---|---|---|
| Amounts due from related parties | 251,260 | 266,289 |
| Sales to related parties | 1,672,851 | 1,583,378 |
| Purchases from related parties | 722,278 | 579,139 |

Key management personnel of the Company comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel compensation is as follows:-

| | **2010** | 2009 |
|---|---|---|
| Board remuneration | 81,000 | 90,000 |
| Board attendance fees | 14,500 | 12,250 |
| Salaries and other benefits | 57,747 | 55,115 |

## 19 CONTINGENT LIABILITIES

| | **2010** | 2009 |
|---|---|---|
| Bank guarantees | 27,000 | 27,000 |

## 20 Employee benefits

The company employs 169 Bahrainis and 4 expatriates as at 31 December 2010 (2009: 190 Bahrainis and 4 expatriates).

Pension rights for **Bahraini employees** are covered by the Social Insurance Organisation scheme to which employees and employers contribute monthly on a fixed-percentage-of salaries basis. The company's contributions in respect of Bahraini employees for 2010 amounted to BD 137,419 (2009: BD 147,638).

**Expatriate employees** on limited-term contracts are entitled to leaving indemnities payable under the Bahrain Labour Law for the private sector 1976, based on length of service and final remuneration. The liability, which is unfunded, is provided for on the basis of the notional cost had all employees left at the reporting date and is included at the reporting date under "Provision for labour law obligation". The provision for the company at 31 December 2010 in respect of expatriate employees was BD 26,381 (2009: BD 23,189).

## 21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Financial instruments

Financial instruments include financial assets and financial liabilities. Financial assets of the Company include cash and cash equivalents, accounts receivable, held-to-maturity investments and available-for-sale investments. Financial liabilities of the Company include trade payables and certain other current liabilities.

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing risk, and the Company’s management of capital. The note also presents certain quantitative disclosures in addition to the disclosures throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Board has established certain executive management committees, which assist the Board of Directors in effectively discharging their responsibilities for developing and monitoring the Company’s risk management policies.

The Company audit committee oversees how management monitors compliance with the Company’s risk management procedures and review the adequacy of the risk management practices in relation to the risks faced by the Company. The Company audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

### Credit risk

Credit risk is the risk that a counter party to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. The Company is exposed to credit risk primarily on its cash and cash equivalents, accounts receivable and investment in managed funds, and debt instruments.

Company’s credit risk on cash and cash equivalents is limited as these are placed with banks in Bahrain having good credit ratings.

*21 Financial instruments and risk management (continued)*

*Credit risk (continued)*

About 46% of the sales are received in cash, the balance being made via through credit. The Company manages its credit risk on accounts receivables by restricting its credit sales only to approved list endorsed General Manager and ensuring that the sales to related parties are as per the internal policies established for transactions with the related parties. Since most of sales of the Company is within Bahrain there is no significant geographical or customer type concentration of credit risk involved in accounts receivable balances. The Company perceives that the account receivable balances are of good credit quality as these are primarily receivable from: a) vendors where the Company has net payable balances, b) customers with good credit standing, and c) related parties with good financial position.

The Company establishes provision for impairment of accounts receivables when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the accounts receivable is impaired.

The Company manages credit risk on its investments by ensuring that investments are made only after careful credit evaluation and due diligence of the issuer of the security. The Company limits its exposure to credit risk by mainly investing in debt instruments, structured notes and managed funds managed or promoted by established bank or financial institutions. The Company has an executive committee comprising of four board members, which is responsible for all investment related decisions. Before investing in any new securities the proposal is first placed with the Executive Committee for its approval. Executive Committee approves the proposal after considering all merits and demerits of the proposal.

*Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | **2010** | 2009 |
|---|---|---|
| Cash and cash equivalents | 470,545 | 453,133 |
| Short-term fixed deposits | 4,058,399 | 3,410,631 |
| Trades receivable | 823,201 | 736,361 |
| Held to maturity investments | - | 919,630 |
| | **5,352,145** | 5,519,755 |

The ageing of accounts receivables at the reporting date was:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Gross** | **Impairment** | Gross | Impairment |
| Not past due | 640,140 | - | 517,721 | - |
| Past due 1-30 days | 163,175 | - | 199,192 | - |
| Past due 31 days- one year | 18,864 | - | 12,212 | - |
| More than one year | 5,745 | 4,723 | 9,688 | 2,452 |
| | **827,624** | 4,723 | 738,813 | 2,452 |

*21 Financial instruments and risk management (continued)*

**Liquidity risk**
Liquidity risk, also referred to as funding risk, is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Company ensures that a significant amount of the funds are invested in cash and cash equivalents, which are readily available to meet liquidity requirements.

As at 31 December 2010 and 2009, all financial liabilities (trade payables, accrued expenses and other liabilities have a maturity of six months or less

**Market risk**
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Company incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors.

***Interest rate risk***
Interest rate risk is the risk that the Company's earnings will be affected as a result of fluctuations in the value of financial instruments due to changes in market interest rates.

The Company's interest rate risk is limited to its interest bearing short-term deposits and investment in debt instruments. The Company's short-term bank deposits are at fixed interest rates and mature within 90 days. The Company's investment in debt instruments is at variable interest rates. The Company earned an effective interest rate of 1.53 % p.a. for the year ended 31 December 2010 (2009: 2.5%).

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

| | **2010** | 2009 |
|---|---|---|
| **Fixed rate instruments** | | |
| Short-term bank deposits | 4,058,399 | 3,410,631 |
| **Variable rate instruments** | | |
| Investment in debt instrument | - | 919,630 |
| | **4,058,399** | 4,330,261 |

Change in market interest rate will not have a significant impact on the carrying value of the bank deposits due to short term characteristics of these deposits. Similarly, the impact of change in market interest rates on the cash flows of variable rate investment security is not significant.

***Foreign exchange risk***
Foreign exchange risk is the risk that the Company's earning will be affected as a result of fluctuations in currency exchange rates.

The Company has exposure to foreign exchange risk on its purchases invoiced in foreign currency, on cash sales in foreign currency and on its certain investment in US dollar and Omani Riyal. Predominantly, the purchase of product is from local suppliers. The majority of the foreign currency purchases are in US dollars. The US dollar is pegged against the Bahraini dinar and therefore the company is not exposed to any significant risk.

*21 Financial instruments and risk management (continued)*

The Company's exposure to significant foreign currency risk at the reporting date was:

| **2010** | **SAR** | **UAE** | **OMR** | **USD** | **EURO** |
|---|---|---|---|---|---|
| Trade receivables | - | 837 | - | - | - |
| Available-for-sale investments | - | - | - | 2,918,092 | 55,800 |
| Held to maturity investments | - | - | - | - | - |
| Trade payables | 9,183 | - | - | - | 4,248 |
| | **9,183** | **837** | **-** | **2,918,092** | **60,048** |

| 2009 | SAR | UAE | OMR | USD | EURO |
|---|---|---|---|---|---|
| Trade receivables | 1,368 | 709 | - | - | - |
| Available-for-sale investments | - | 1,051 | - | 2,881,201 | 55,800 |
| Held to maturity investments | - | - | 481,130 | - | - |
| Trade payables | 18,385 | 374 | - | - | - |
| | 19,753 | 2,134 | 481,130 | 2,881,201 | 55,800 |

The Company does not perceive that fluctuations in foreign exchange rates will have any significant impact on the income or equity because the exposure to currencies other than US dollar, which is pegged to Bahraini dinar is not significant.

***Other market price risk***
The primary goal of the Company's investment strategy is to ensure risk free returns and invest excess surplus fund available with the Company in risk free securities. Market price risk arises from available-for-sale investments held by the Company. The Company's executive committee monitors its investment portfolio considering prevalent market factors. Significant investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the executive Committee.

*Sensitivity analysis – equity price risk*
All of the Company's quoted equity investments are listed on Bahrain Stock Exchange (BSE). A two percent increase in BSE at the reporting date would have increased equity by BD 56,293 (2009: an increase of BD 49,336); an equal change in the opposite direction would have decreased equity by BD 56,293 (2009: a decrease of BD 49,336). The analysis is performed on the same basis for 2009.

**Capital Management**
The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Company. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which the Company defines as total shareholders' equity and the level of dividends to shareholders.

The Board seeks to maintain a balance between the higher returns and growth that might be possible by a sound capital position. The Company's target is to achieve a reasonable return on shareholders' equity. In 2010 the return was 7.1 % percent (2009: 9.9 % percent).There were no significant changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements

*21 Financial instruments and risk management (continued)*

**Fair values**
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.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The fair values of financial assets and liabilities, together with the carrying amounts shown at the reporting date, are as follows:

| **2010** | **Loans and receivables** | **Available-for-sale** | **Other amortised cost** | **Total carrying amount** | **Fair Value** |
|---|---|---|---|---|---|
| Cash and cash equivalents | 470,545 | - | - | 470,545 | 470,545 |
| Short-term fixed deposits | 4,058,399 | - | - | 4,058,399 | 4,058,399 |
| Trade receivables | 823,201 | - | - | 823,201 | 823,201 |
| Accrued income and other receivables | 201,953 | - | - | 201,953 | 201,953 |
| Available-for-sale investments | - | 5,189,142 | - | 5,189,142 | 5,189,142 |
| Held to maturity investments | - | - | - | - | - |
| | **5,554,098** | **5,189,142** | **-** | **10,743,240** | **10,743,240** |
| Trade payables | - | - | 85,181 | 85,181 | 85,181 |
| Accrued expenses and other current liabilities | | | 489,005 | 489,005 | 489,005 |
| | **-** | **-** | **574,186** | **574,186** | **574,186** |

| 2009 | Loans and receivables | Available-for-sale | Other amortised cost | Total carrying amount | Fair Value |
|---|---|---|---|---|---|
| Cash and cash equivalents | 453,133 | - | - | 453,133 | 453,133 |
| Short-term fixed deposits | 3,410,631 | - | - | 3,410,631 | 3,410,631 |
| Trade receivables | 736,361 | - | - | 736,361 | 736,361 |
| Accrued income and other receivables | 306,473 | - | - | 306,473 | 306,473 |
| Available-for-sale investments | - | 4,996,286 | - | 4,996,286 | 4,996,286 |
| Held to maturity investments | 919,630 | - | - | 919,630 | 919,630 |
| | 5,826,228 | 4,996,286 | - | 10,822,514 | 10,822,514 |
| Trade payables | - | - | 94,759 | 94,759 | 94,759 |
| Accrued expenses and other current liabilities | - | - | 422,796 | 422,796 | 422,796 |
| | - | - | 517,555 | 517,555 | 517,555 |

Available-for-sale investments are recorded at fair values, except for investments having carrying value of 2010 BD 987,224 (2009: BD 987,224), which are carried at cost less provision for impairment.

## 22 FAIR VALUE

The Company measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments where the valuation technique includes inputs not based on market observable data. The table below analyses financial assets and liabilities carried at fair value, by valuation method.

| **At 31 December 2009** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| Available for sale financial assets: | | | |
| Equity shares | 2,814,633 | - | - |
| Managed funds | - | 2,140,975 | - |
| **Total** | 2,814,633 | 2,140,975 | **-** |

## 23 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Company makes estimates and assumptions that affect the reported amount of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Judgments**

In the process of applying the Company’s accounting policies, management decides on acquisition of an investment whether it should be classified as carried at trading securities or available-for-sale securities or held to maturity. Investments are classified as trading if the security is principally acquired for the purpose of selling or repurchasing in the near future for generating profits from short-term fluctuations in price and are classified as held to maturity if the Company has the positive intention and ability to hold to maturity. All other investments are classified as available-for-sale.

**Estimations**

***Impairment of available-for-sale investments:***

The Company determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In case of equity quoted securities in active markets, the company consider decline in value below cost of 20% or decline that persists for more than 9 months as an indicator of impairment. At 31 December 2010, the company had decline in value of certain AFS securities below than cost by BD 18,350 (2009: 36,776) which has been assessed to be impaired in accordance with company’s policy.

**NOTES**
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*23 Critical accounting estimates and judgments in applying accounting policies (continued)*

***Impairment of inventories:***
The Company reviews the carrying amounts of the inventories at each reporting date to determine whether the inventories have been impaired. The Company identifies the inventories, which have been impaired based on the age of the inventory and their estimate of the future demand for various items in the inventory. If any impairment indication exists, the inventories recoverable amount is estimated based on past experience and prevalent market conditions.

***Impairment of trade receivables***
The Company establishes provision for impairment of accounts receivables when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired.

## 24 PROPOSED APPROPRIATIONS & BOARD MEMBERS'S APPROPRIATIONS

The Board of Directors have proposed the following appropriations for the year and will be submitted for formal approval at the annual general meeting.

| | **2010** | 2009 |
|---|---|---|
| Cash dividends | 616,895 | 587,519 |
| Bonus shares | - | 146,880 |
| Statutory Reserve | 99,179 | 130,676 |
| Retained earnings | 1,526,724 | 1,237,369 |

The board also recommends paying BD 81,000 (2009: BD 90,000) as board remuneration.

## 25 COMPARATIVES

Certain prior year amounts have been reclassified to conform to the presentation in the current year. Such reclassifications do not affect previously reported net profit or total equity.