DELMON POULTRY COMPANY BSC

FINANCIAL STATEMENTS

31 DECEMBER 2012

FINANCIAL STATEMENTS
for the year ended 31 December 2012

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GENERAL INFORMATION
2012 financial statements

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

BOARD OF DIRECTORS REPORT
For the year ended 31 December 2012

Dear Shareholders,

On behalf of myself and the Board of Directors, it is my pleasure to present to you the annual report of Delmon Poultry Company B.S.C. for the financial year ended 31 December 2012.

Delmon Poultry Company was able to achieve good results in 2012 despite big challenges resulted from unprecedented increase in prices of primary raw material internationally.

Despite difficult circumstances, the Company achieved net profit of BD 1,170,013 in 2012 showing a decrease of 0.08% over BD 1,170,937 net profits in 2011. This has an impact in earning per share to remain steady in 2012 at 38 fils same as last year. The following are the financial and operational results achieved across all of the Company's segments:

1. Feedmill Plant:
   The net loss of Feedmill Plant for 2012- after government grant to stabilise the sale price of feeds to broiler chickens farmers- has increased by 40.7% as compared to 2011. The result of the Plant in 2012 showed net loss of BD 562,441 (against net loss of BD 399,633 in 2011).This is attributed to the rise in the feed production costs due to the increase in prices of the international raw materials and increase in total quantities of feed sold by 7.3%. In addition, the government grant did not cover the difference between the production costs and the selling prices for subsidised feeds sold to chicken farmers which is under negotiation with respective parties.

2. Chicken Processing Plant:
   The net profit of the Chicken processing plant in 2012- after the government grant to stabilise sale price of chicken- was BD 1,575,701 (compared to 2011 net profit of BD 1,014,869). This was due to the increase in quantity of chicken sold by 22.3% in 2012 as compared to 2011 and increase in average net weight of processed chicken.

3. Chicks Hatchery:
   The hatchery operations in 2012 showed net loss of BD 315,962 (compared to net loss of BD 424,274 in 2011) with a decrease by 25.5% as compared to 2011. This is attributed to the decrease in prices of hatching eggs purchased used for chicks production and increase in hatchability percentage above the contracted percentage which has resulted a decrease in the average production costs.

4. Investments:
   The Company achieved a net profit of BD 466,948 in 2012 (2011 : net profit of BD 972,587) with a decrease in net investment profits by BD 505,639 which pertains to the following:
   - Decrease in share in profits of the associate company - Bahrain Livestock Company B.S.C (closed) – by BD 465,629 in 2012 as compared to 2011 due to suspension of importing livestock from Australia and continuous focus of the company to import chilled meat by air to meet the demand of the local market.
   - Increase in income from available for sale investments, held to maturity investments and fixed deposits by BD 35,394 in 2012 as compared to 2011.
   - Increase in impairment of available for sale investments by BD 75,404 in 2012 as compared to 2011 result of decline in the market value for some investments available for sale. It's worth mentioning that the total investment fair value reserve included under equity reserves of the Company's Financial Position for the year ended December 2012 reached BD 1,699,614.

I would like to note that, according to corporate governance, we have announced on 3rd of September 2012 that Bahrain Livestock Company B.S.C (closed) an associate of Delmon Poultry Company with stake of 36.26% may incur losses. The losses cannot be determined at this stage which may reach USD 4 million (for the value of shipment which was not allowed to discharge its load by veterinary authorities in Kingdom of Bahrain) in addition to other legal cases and financial consequences. As the matter is under discussion with respective parties, the Bahrain Livestock Company has not taken any provisions in its financial statements for the year ended 31 December 2012, and the same will be considered in 2013 based on the results reached.

BOARD OF DIRECTORS REPORT
For the year ended 31 December 2012 *(continued)*

Based on the achieved results, the Board of Directors has recommended for the approval of shareholders, the following appropriations:

a- Distribute cash dividends of 20% of par value, which is equal to BD 616,226.
b- Retain BD 2,590,838 as retained earnings for next year.

The Board also recommends approving the payment of BD 90,000 as remuneration to the Board of Directors for the financial year 2012 (2011: BD 90,000) which was already included in the income statement as provision for board of directors' remuneration.

During the financial year 2012, the amounts paid to the members of the Board of Directors against sitting fees and allowances, which was included in the income statement, BD 46,500 (2011 :BD 46,000).

In 2012, Delmon Poultry Company has completed phase one of Information Technology upgrade. The strategic plans and aspirations of the Company in 2013 is to complete the study of establishing of parent stock project which is intended to be set up in the Sultanate of Oman with strategic partners from GCC to produce hatching eggs. The formation committee has appointed a consultant to conduct a feasibility study for the project. In addition to, completion of studies related to production activities of Delmon Poultry Company related to rehabilitation or construction of new chicken processing plant, develop and rehabilitate the feedmill plant, increase the production capacity of chick's hatchery to produce one-day old chicks.

With regard to the implementation of the Corporate Governance Charter, the Board of Directors approved all the regulations, procedures and documents pertaining to the Charter of Corporate Governance in 2011. Moreover, during 2012 the Board of Directors approved the formation of Nomination and Remuneration Committee, as well as Corporate Governance Committee besides the current existing committees (the Executive Committee and the Audit Committee) to meet the requirements of the charter. The Board of Directors continues to enhance implementation of best practice of requirements of Charter of Corporate Governance.

I am pleased to express on my behalf and on behalf of the Board of Directors and the shareholders our great appreciation and obligations to His Majesty King Hamad Bin Isa Al Khalifa, The King of Kingdom of Bahrain, His Royal Highness Prince Khalifa Bin Salman Al Khalifa, The Prime Minister and His Royal Highness Prince Salman Bin Hamad Al Khalifa the Crown Prince and Deputy Supreme Commander, may Allah bless them all, for their wise leadership and continued support to the economic development of the Kingdom of Bahrain. We also extend our thanks and appreciation to His Excellency Shaikh Khalid Bin Abdulla Al Khalifa Deputy Prime Minister, Chairman of Ministerial Committee of Service and Infrastructure for his wise guidance to achieve food security in the Kingdom of Bahrain, and to the Ministries and Government organizations for their cooperation and continuous support, in particular to His Excellency the Minister of Industry and Commerce, His Excellency the Minister of Finance and His Excellency the Minister of Municipalities and Urban Planning for their continuous support.

Finally, we would like to express our appreciations and thanks to our shareholders and customers for their trust and support they have provided to the company, as well as to the Management and employees of the Company for their commitment loyalty and efforts during 2012, in which we were able collectively to achieve another good year for Delmon Poultry Company which make us optimistic for the future.

Yousuf Saleh Al-Saleh
Chairman
13th February 2013

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

13th February 2013

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 2012, and 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 of the Company 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 policies 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 2012, 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.

KPMG

STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

Bahraini dinars

	Note	31 December 2012	31 December 2011
ASSETS			
CURRENT ASSETS			
Cash and bank		485,252	262,112
Short-term bank fixed deposits		4,060,728	3,028,364
Trade receivables	3	854,902	741,858
Accrued income and other receivables	4	1,421,784	1,696,500
Inventories	5	1,375,057	1,669,613
Total current assets		**8,197,723**	7,398,447
NON-CURRENT ASSETS			
Available-for-sale investments	6	3,742,637	4,288,711
Held-to-maturity investments	7	500,000	500,000
Investment in associate company	8	2,244,274	2,096,809
Property, plant and equipment	9	724,119	493,886
Total non-current assets		**7,211,030**	7,379,406
Total assets		**15,408,753**	14,777,853
LIABILIES AND EQUITY			
CURRENT LIABILITIES			
Trade payables		272,763	184,721
Accrued expenses and other liabilities	10	575,871	602,188
Total current liabilities		**848,634**	786,909
NON-CURRENT LIABILITIES			
Provision for labour law obligations	20	38,906	33,005
Total liabilities		**887,540**	819,914
EQUITY			
Share capital	11	3,061,071	3,069,097
Reserves		8,253,078	8,234,896
Retained earnings		3,207,064	2,653,946
Total equity (page 7)		**14,521,213**	13,957,939
Total liabilities and equity		**15,408,753**	14,777,853

The financial statements consisting of pages 4 to 30 were approved by the board of directors on 13 February 2013 and signed on its behalf by:

Yousuf Saleh Al Saleh
Chairman

Abdulnabi Nasser Salman
Vice chairman

INCOME STATEMENT
for the year ended 31 December 2012 Bahraini dinars

	Note	**2012**	2011
SALES	12	14,647,408	12,717,299
Cost of sales	13	(15,487,685)	(13,870,542)
GROSS LOSS		**(840,277)**	(1,153,243)
OTHER OPERATING EXPENSES	14	(609,565)	(531,635)
OPERATING LOSS BEFORE GOVERNMENT SUBSIDY		**(1,449,842)**	(1,684,878)
GOVERNEMENT SUBSIDY	15	2,146,992	1,859,402
OPERTATING INCOME		**697,150**	174,524
OTHER INCOME / (EXPENSES)			
Investment income	16	303,535	268,141
Share of profit of associate	8	294,680	760,309
Impairment of AFS investments	6	(131,267)	(55,863)
Other income		5,915	23,826
PROFIT FOR THE YEAR		**1,170,013**	1,170,937
Earning per share	17	**38 fils**	38 fils

The financial statements consisting of pages 4 to 30 were approved by the board of directors on 13th February 2013 and signed on its behalf by:

Yousuf Saleh Al-Saleh
Chairman

Abdulnabi Nasser Salman
Vice chairman

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

Bahraini dinars

	2012	2011
Profit for the year	**1,170,013**	1,170,937
Other comprehensive income:		
Fair value reserve (AFS investments):		
Change in investments fair value	(23,497)	(405,195)
Company's share of change in fair value of the investments and other reserves of the associate	20,492	(51,347)
Transferred to income statement on AFS impairment	37,820	55,863
Transferred to income statement on sale of AFS investment	(16,633)	(70,290)
Other comprehensive income for the year	**18,182**	(470,969)
Total comprehensive income for the year	**1,188,195**	699,968

These financial statements consist of pages 4 to 30.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

Bahraini dinars

2012	Share capital	Treasury shares	Reserves				Retained earnings	Total
			Statutory reserve	General reserve	Development and raw material reserve	Investments fair value reserve		
At 1 January 2012	3,120,928	(51,831)	1,560,464	3,993,000	1,000,000	1,681,432	2,653,946	13,957,939
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	**1,170,013**	**1,170,013**
Other comprehensive income:								
Fair value reserve (AFS investments):								
Change in investments fair value	-	-	-	-	-	(23,497)	-	(23,497)
Company's share of net change in fair value of the investments and other reserves of the associate	-	-	-	-	-	20,492	-	20,492
Transferred to income statement as a result of AFS impairment	-	-	-	-	-	37,820	-	37,820
Reserve transferred to income statement upon sale of AFS investment	-	-	-	-	-	(16,633)	-	(16,633)
Total other comprehensive income for the year	-	-	-	-	-	**18,182**	-	**18,182**
Total comprehensive income for the year	-	-	-	-	-	**18,182**	**1,170,013**	**1,188,195**
Purchase of treasury shares	-	(8,026)	-	-	-	-	-	(8,026)
Dividend declared for 2011	-	-	-	-	-	-	(616,895)	(616,895)
At 31 December 2012	**3,120,928**	**(59,857)**	**1,560,464**	**3,993,000**	**1,000,000**	**1,699,614**	**3,207,064**	**14,521,213**

These financial statements consist of pages 4 to 30.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012 (Continued)

Bahraini dinars

2011	Share capital	Treasury shares	Reserves: Statutory reserve	Reserves: General reserve	Reserves: Development and raw material reserve	Reserves: Investments fair value reserve	Retained earnings	Total
As at 1 January 2011	3,120,928	(51,831)	1,516,749	3,993,000	1,000,000	2,152,401	2,143,619	13,874,866
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	1,170,937	1,170,937
Other comprehensive income:								
Fair value reserve (AFS investments):								
Change in investments fair value	-	-	-	-	-	(405,195)	-	(405,195)
Company's share of net change in fair value of the investments and other reserves of the associate	-	-	-	-	-	(51,347)	-	(51,347)
Transferred to income statement as a result of AFS impairment	-	-	-	-	-	55,863	-	55,863
Reserve transferred to income statement upon sale of AFS investment	-	-	-	-	-	(70,290)	-	(70,290)
Total other comprehensive income for the year	-	-	-	-	-	(470,969)	-	(470,969)
Total comprehensive income for the year	-	-	-	-	-	(470,969)	1,170,937	699,968
Dividend declared for 2010	-	-	-	-	-	-	(616,895)	(616,895)
Transfer to statutory reserve	-	-	43,715	-	-	-	(43,715)	-
At 31 December 2011	3,120,928	(51,831)	1,560,464	3,993,000	1,000,000	1,681,432	2,653,946	13,957,939

The financial statements consist of pages 4 to 30.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

Bahraini dinars

	2012	2011
OPERATING ACTIVITIES		
Cash received from customers	11,548,676	10,206,608
Subsidies received from Bahrain Government	3,665,636	1,269,356
Payments to suppliers	(12,149,688)	(10,661,778)
Payments to employees and others	(1,546,223)	(1,632,285)
Directors' remuneration paid	(90,000)	(81,000)
Cash flows from operating activities	**1,428,401**	(899,099)
INVESTING ACTIVITIES		
Purchase of plant & equipment	(431,217)	(42,382)
Proceeds from sale of available-for-sale investments	408,536	355,285
Payments to purchase held-to-maturity investment	-	(500,000)
Proceeds from sale of plant & equipment	-	8,887
Interest and dividends received	289,229	307,342
Dividends received from an associate	167,706	127,776
Cash flows from investing activities	**434,254**	256,908
FINANCING ACTIVITIES		
Dividends paid	(607,151)	(596,277)
Cash flows from financing activities	**(607,151)**	(596,277)
Net increase/(decrease) in cash and cash equivalents	**1,255,504**	(1,238,468)
CASH AND CASH EQUIVALENTS at 1st January	3,290,476	4,528,944
CASH AND CASH EQUIVALENTS at 31st December	**4,545,980**	3,290,476
Comprising:		
Cash and bank	485,252	262,112
Short-term bank fixed deposits	4,060,728	3,028,364
	4,545,980	3,290,476

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 is also 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 measurement

The financial statements are prepared on the historical cost basis except for certain 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 2012

(i) Improvements to IFRSs (2011)

Improvements to IFRS issued 2011 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. There were no material changes to the current accounting policies of the Company as a result of these amendments.

(ii) IFRS 7 (amendment) – Disclosures: Transfer of financial assets

The amendments to IFRS 7 introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.
The adoption this amendment had no significant impact on the financial statements.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2013, and have not been applied in preparing these financial statements. Those which are relevant to the Company are set out below. The Company does not plan to early adopt these standards.

2 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

(i) IAS 1 (amendment) - Presentation of items of other comprehensive income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application. The Company is not expecting a significant impact from the adoption of this amendment.

(ii) IAS 19 – Employee benefits (2011)

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Company. However, the Company may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. The Company is not expecting a significant impact from the adoption of this amendment.

(iii) IAS 28 (2011) – Investment in Associates and Joint ventures

IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the following amendments:

- *Associates held for sale: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the entity applies the equity method until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture; and

- On cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not re-measure the retained interest.

The standard is effective for annual periods beginning on or after 1 January 2013 and is applied retrospectively. The Company is not expecting a significant impact from the adoption of this amendment.

(iv) Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Company will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

(v) IFRS 12 - Disclosures of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements (i.e. joint operations and joint ventures), associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests. The standard is effective for annual periods beginning on or after 1 January 2013. The Company is currently assessing the disclosure requirements for interests in subsidiaries and unconsolidated unstructured entities in comparison with existing disclosures.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(vi) IFRS 13 - Fair value measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Company to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Company is currently reviewing its methodologies for determining fair values (see Note 22).

(vii) IFRS 9 - Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. Given the nature of the Company's operations, this standard is expected to have a significant pervasive impact on the Company's financial statements.

(viii) Early adoption of standards

The Company did not early-adopt new or amended standards in 2012 and 2011.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received/receivable. Revenue from sale of chickens, feeds and chicks are recognised when goods are delivered to the customers. Dividend income from investments is recognised when 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 subsidy

Government subsidy related to sale of chickens and feeds in Bahrain received as a compensation due to price control policy exercised by the Government are recognised in the income statement as other operating revenue when the subsidy becomes receivable. Government subsidy toward farmers' production of chickens is recognised upon receipt of live chickens from farmers and are treated 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. Other components are also in Bahraini Dinar, hence there is no translation difference.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 associate company

Associates are those enterprises in which the Company holds, directly or indirectly, more than 20% of the voting power or exercises significant influence, but not control, over the financial and operating policies.

The investments are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's equity. 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 the associate. Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement. The same policy is followed for any incremental stake acquired while maintaining significant influence.

l) Investment securities

(i) Classification

Held-to-maturity securities are quoted investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity or trading securities.

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 de-recognition

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(iii) Measurement

Available-for-sale securities (AFS securities) are initially measured at fair value, including transaction costs. AFS securities are subsequently re-measured to fair value. Unrealised gains and losses arising from revaluation are recognised in 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. Unquoted AFS securities whose fair value cannot be reliably measured are carried at cost less impairment allowance

Held-to-maturity securities are initially measured at fair value including transaction costs and 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 bid market prices or dealer price quotations for financial instruments traded in active markets.

(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 AFS equity instruments are subsequently reversed through the statement of comprehensive income.

For available-for-sale investments carried at cost, the Company makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

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 initially measured at fair value and subsequently carried at amortised cost 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. This assessment is carried out for each customer.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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, IT and software	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

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 of non-financial assets
The carrying amount of the Company's assets or its cash generating unit, other than financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

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 approved 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 No. 36 of 2012 for the Private Sector, 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

	31 December 2012	31 December 2011
Gross receivables	859,625	746,581
Less: Provision for impairment	(4,723)	(4,723)
	854,902	741,858

4 ACCRUED INCOME AND OTHER RECEIVABLES

	31 December 2012	31 December 2011
Government subsidy receivable	877,942	1,491,279
Advances to suppliers	441,303	158,547
Others	123,098	67,233
	1,442,343	1,717,059
Less – impairment provision on other receivables	(20,559)	(20,559)
	1,421,784	1,696,500

5 INVENTORIES

	31 December 2012	31 December 2011
Finished goods		
- Feed	64,656	26,644
- Frozen/chilled chicken	4,572	3,086
Hatching eggs - hatchery	79,055	119,890
Raw material and packing materials	703,176	1,072,907
Spare parts for plant and machinery	523,598	447,086
	1,375,057	1,669,613

6 AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2012	31 December 2011
Classification:		
Quoted equity securities- at fair value	2,570,408	2,594,454
Unquoted equity securities - at cost	725,369	881,305
Managed funds – at fair value	446,860	812,952
	3,742,637	4,288,711
Movement:		
At 1 January	4,288,711	5,189,142
Purchase of AFS investments	-	6,587
Sale of AFS investments	(412,497)	(431,533)
Net change in fair value	(133,577)	(475,485)
At 31 December	**3,742,637**	4,288,711

During the year, impairment provision on AFS investments of BD 131,267 (2011: 55,863) has been recognised.

7 HELD-TO-MATURITY INVESTMENTS

	31 December 2012	31 December 2011
Government of Bahrain bonds	500,000	500,000
	500,000	500,000

8 INVESTMENT IN ASSOCIATE COMPANY

	Carrying amount	Goodwill	2012 Total	2011 Total
At 1 January	2,035,725	61,084	**2,096,809**	1,515,623
Movement during the year:				
Share of Company in profit for the year	294,680	-	**294,680**	760,309
Company's share of the associate's net change in fair value of the investments and other reserves	20,491	-	**20,491**	(51,347)
Dividends received	(167,706)	-	**(167,706)**	(127,776)
At 31 December	**2,183,190**	**61,084**	**2,244,274**	2,096,809

8 INVESTMENT IN ASSOCIATE COMPANY *(continued)*

The Company owns 36.26% share in Bahrain Livestock Company BSC (closed). In applying the equity method; the Management Accounts as of 31 December 2012 have been used, which included the following data:

SUMMARY OF FINANCIAL INFORMATION OF ASSOCIATE	**2012**	2011
Current assets	9,962,020	11,778,438
Non-current assets	1,171,440	212,743
Total assets	**11,133,460**	11,991,181
Current liabilities	4,631,021	6,323,995
Non-current liabilities	482,127	53,519
Total liabilities	**5,113,148**	6,377,514
Revenues	57,034,133	61,361,363
Expenses	56,221,447	59,264,753
Net profit	**812,686**	2,096,610

9 PROPERTY, PLANT AND EQUIPMENT	**Buildings**	**Plant and machinery**	**Furniture, vehicles tools, IT and software**	**Work in progress**	**2012 Total**	2011 Total
Cost						
At beginning of year	3,474,918	4,365,385	1,675,137	20,845	9,536,285	9,486,690
Additions	74,178	20,577	242,925	233,742	571,422	148,434
Disposals	-	-	(247,965)	-	(247,965)	(98,839)
At 31 December	**3,549,096**	**4,385,962**	**1,670,097**	**254,587**	**9,859,742**	9,536,285
Depreciation						
At beginning of year	3,337,831	4,210,909	1,493,659	-	9,042,399	9,020,074
Charge for the year:						
- Cost of sale	31,200	29,060	30,996	-	91,256	111,629
- Others	3,057	-	23,912	-	26,969	9,535
Disposals	(159)	-	(24,842)	-	(25,001)	(98,839)
At 31 December	**3,371,929**	**4,239,969**	**1,523,725**	-	**9,135,623**	9,042,399
Net carrying value at 31 December 2012	**177,167**	**145,993**	**146,372**	**254,587**	**724,119**	493,886
At 31 December 2011	137,087	154,476	181,478	20,845	493,886	

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 leased by Company from the Government. The lease amount for 2012 was BD 24,274.

10 ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2012	31 December 2011
Unclaimed declared dividends (1986-2011)	189,821	177,076
Provision for Board Remuneration	90,000	90,000
Provision for staff related cost	233,608	224,687
Miscellaneous payables	62,442	110,425
	575,871	602,188

11 SHARE CAPITAL

	31 December 2012	31 December 2011
Issued and fully paid: 31,209,277 shares of 100 fils each	3,120,928	3,120,928
Authorised: BD 10 million		
397,982 treasury shares (2011: 364,539 shares)	(59,857)	(51,831)
Net shares in public issue	**3,061,071**	3,069,097

Performance per share	**31 December 2012**	31 December 2011
Earnings per 100 fils share	38 fils	38 fils
Net asset value per 100 fils share	471 fils	453 fils
Stock Exchange price per 100 fils per share at 31 December	240 fils	215 fils
Stock Exchange price to earnings ratio	6:1	6:1
Total market capitalisation at 31 December (BD)	7,394,711	6,631,619

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 2012:

	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 Yusuf Al Mutawa	Bahraini	1,969,076	6.31

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

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11 SHARE CAPITAL (continued)

(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%	9,614,417	1,531	30.79
1% up to less than 5%	3,977,772	7	12.75
5% up to less than 10%	7,038,673	3	22.56
10% up to less than 20%	10,578,415	2	33.90
	31,209,277	**1,543**	**100.00**

*Expressed as a percentage of total 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 and the Board of Directors. 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. The majority of assets can be directly attributed to individual segments, and any common assets between the segments have been disclosed as unallocated.

Segment liabilities include all operating liabilities and consist principally of accounts payable and accrued expenses. All common liabilities between the segments have been disclosed as unallocated.

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12 SEGMENTAL ANALYSIS *(continued)*

2012	**Chicken**		**Feeds**		**Chicks**		**Investments**		**Unallocated**		**Total**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Revenue from external customers	8,597,270	7,085,222	4,239,596	3,963,623	1,810,542	1,668,454	-	-	-	-	**14,647,408**	12,717,299
Share of profit from associate	-	-	-	-	-	-	294,680	760,309	-	-	**294,680**	760,309
Investment income	-	-	-	-	-	-	303,535	268,141	-	-	**303,535**	268,141
Government subsidy	1,074,060	878,280	1,072,932	981,122	-	-	-	-	-	-	**2,146,992**	1,859,402
Other income	83	4,135	65	11,333	-	970	-	-	5,767	7,388	**5,915**	23,826
Total segment revenues	**9,671,413**	7,967,637	**5,312,593**	4,956,078	**1,810,542**	1,669,424	**598,215**	1,028,450	**5,767**	7,388	**17,398,530**	15,628,977
Cost of sales	7,789,147	6,696,117	5,652,560	5,158,012	2,045,978	2,016,413	-	-	-	-	**15,487,685**	13,870,542
Other operating expenses	306,565	256,651	222,474	197,699	80,526	77,285	-	-	-	-	**609,565**	531,635
Impairment of investments	-	-	-	-	-	-	131,267	55,863	-	-	**131,267**	55,863
Total segment costs	**8,095,712**	6,952,768	**5,875,034**	5,355,711	**2,126,504**	2,093,698	**131,267**	55,863	-	-	**16,228,517**	14,458,040
Segment profit / (loss)	**1,575,701**	1,014,869	**(562,441)**	(399,633)	**(315,962)**	(424,274)	**466,948**	972,587	**5,767**	7,388	**1,170,013**	1,170,937
Segment assets	**1,921,285**	2,037,237	**1,653,867**	2,124,453	**296,305**	385,660	**6,486,911**	6,900,305	**5,050,385**	3,330,198	**15,408,753**	14,777,853
Segment liabilities	**212,507**	325,586	**271,295**	129,596	**126,286**	45,815	-	-	**277,452**	318,917	**887,540**	819,914

13 COST OF SALES

	Chicken	Feed	Chicks	**Total 2012**	Total 2011
Raw materials	7,346,986	5,210,564	1,822,157	**14,379,707**	12,645,971
Staff cost	915,322	281,495	156,400	**1,353,217**	1,359,776
Depreciation	50,583	17,329	23,344	**91,256**	111,629
Other	381,563	143,172	44,077	**568,812**	501,441
Less: Farmers' subsidy *	(905,307)	-	-	**(905,307)**	(748,275)
	7,789,147	**5,652,560**	**2,045,978**	**15,487,685**	13,870,542

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

14 OTHER OPERATING EXPENSES

	2012	2011
Staff cost	329,335	252,948
Depreciation	26,969	9,535
Board of directors and executive committee remuneration	136,500	136,000
Professional fees	20,630	25,277
Others	96,131	107,875
	609,565	531,635

15 GOVERNMENT SUBSIDY

The Government of Bahrain provides subsidy to the Company of 120 fils (2011: 120 fils) for every KG of chicken sold locally in order to stabilise the sale price. Further, Government subsidy on local sales of feeds to farmers of broiler chickens is BD 42 per ton (2011: BD 42) in order to stabilize the selling prices of feeds to the farmers of broiler chickens.

The following table shows the details of Government subsidy:

	2012	2011
Subsidy on chickens sold	1,074,060	878,280
Subsidy on feeds sold	1,072,932	981,122
	2,146,992	1,859,402

Quantities of chickens sold during the period were 8,950,500 KG (2011: 7,319,000 KG) and quantities of subsidised feeds sold to the farmers were 25,546 ton (2011: 23,360 ton).

16 INVESTMENT INCOME

	2012	2011
Profit on sale of AFS investments	30,272	33,202
Interest income	123,257	75,389
Dividend income	150,006	159,550
	303,535	268,141

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 2012 as follows:

	2012	2011
Profit for the year	1,170,013	1,170,937
Weighted average number of equity shares	30,811,295	30,844,738
Basic earnings per share	38 fils	38 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. During the year, the Company has purchased 33,443 treasury shares amounting to BD 8,026.

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 as per the fixed contract price agreed by the Company, government and those entities, other related party transactions are conducted on a normal commercial basis.

The related party transactions and balances included in these financial statements are as follows:

	2012			2011		
	Receivables	**Sales**	**Purchases**	Receivables	Sales	Purchases
Major shareholders	56,475	988,619	-	214,352	1,053,231	-
Entities controlled by directors	5,015	409,785	692,904	42,338	386,611	615,384
Associate	4,888	16,646	-	21,225	79,618	-
Total	**66,378**	**1,415,050**	**692,904**	277,915	1,519,460	615,348

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:-

	2012	2011
Board remuneration	90,000	90,000
Board attendance fees	20,500	20,000
Salaries and other benefits	73,866	70,346

19 CONTINGENT LIABILITIES

	2012	2011
Bank guarantees	60,981	17,500

20 EMPLOYEE BENEFITS

The Company employs 181 Bahrainis and 4 expatriates as at 31 December 2012 (2011: 176 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 2012 amounted to BD 137,595 (2011: BD 126,531).

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under Bahraini Labour Law No. 36 of 2012 for the Private Sector, 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 2012 in respect of expatriate employees was BD 38,906 (2011: BD 33,005).

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 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.

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21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

About 53% of the sales are received in cash, the balance being made through credit. The Company manages its credit risk on accounts receivables by restricting its credit sales only to approved list endorsed by the 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 are 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 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:

	2012	2011
Cash and bank	425,342	238,372
Short-term fixed deposits	4,060,728	3,028,364
Trades receivable	854,902	741,858
Held to maturity investments	500,000	500,000
	5,840,972	4,508,594

The ageing of accounts receivable at the reporting date was:

	2012		2011	
	Gross	**Impairment**	Gross	Impairment
Not past due	355,092	-	491,902	-
Past due 1-30 days	285,539	-	209,818	-
Past due 31-90 days	174,917	-	37,458	-
Past due 91 days- one year	39,354	-	2,680	-
More than one year	4,723	4,723	4,723	4,723
	859,625	**4,723**	746,581	4,723

21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk
Liquidity risk, also referred to as funding risk, is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. 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 2012 and 2011, all financial liabilities (trade payables) 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. 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 1.59 % p.a. for the year ended 31 December 2012 (2011: 1.63 %).

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

	2012	2011
Fixed rate instruments		
Short-term bank deposits	4,060,728	3,028,364
Variable rate instruments		
Investment in held to maturity debt instrument	500,000	500,000
	4,560,728	3,528,364

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 foreign currency. 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.

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.

21 *FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)*

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 Bourse. A two percent increase in Bahrain Bourse index at the reporting date would have increased equity by BD 13,666 (2011: an increase of BD 11,024); an equal change in the opposite direction would have decreased equity by BD 13,666 (2011: a decrease of BD 11,024). The analysis is performed on the same basis for 2011.

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 2012 the return was 8.2 % percent (2011: 8.4 % 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

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:

2012	**Loans and receivables**	**Available-for-sale**	**Held-to-maturity**	**Other amortised cost**	**Total carrying amount**	**Fair Value**
Cash and cash equivalents	485,252	-	-	-	485,252	485,252
Short-term fixed deposits	4,060,728	-	-	-	4,060,728	4,060,728
Trade receivables	854,902	-	-	-	854,902	854,902
Accrued income and other receivables	1,421,784	-	-	-	1,421,784	1,421,784
Investments	-	3,742,637	500,000	-	4,242,637	4,242,637
	6,822,666	**3,742,637**	**500,000**	**-**	**11,065,303**	**11,065,303**
Trade payables	-	-	-	272,763	272,763	272,763
Other liabilities	-	-	-	342,263	342,263	342,263
	-	**-**	**-**	**615,026**	**615,026**	**615,026**

NOTES
to the 2012 financial statements Bahraini dinars

21 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

2011	Loans and receivables	Available-for-sale	Held-to-maturity	Other amortised cost	Total carrying amount	Fair Value
Cash and cash equivalents	262,112	-	-	-	262,112	262,112
Short-term fixed deposits	3,028,364	-	-	-	3,028,364	3,028,364
Trade receivables	741,858	-	-	-	741,858	741,858
Accrued income and other receivables	1,696,500	-	-	-	1,696,500	1,696,500
Investments	-	4,288,711	500,000	-	4,788,711	4,788,711
	5,728,834	4,288,711	500,000	-	10,517,545	10,517,545
Trade payables	-	-	-	184,721	184,721	184,721
Other liabilities	-	-	-	377,501	377,501	377,501
	-	-	-	562,222	562,222	562,222

Available-for-sale investments are recorded at fair values, except for investments having carrying value of BD 725,369 in 2012 (2011: BD 881,306), 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.

22 FAIR VALUE *(continued)*

At 31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Available for sale investments:				
Equity shares	2,570,408	-	-	2,570,408
Managed funds	-	-	446,860	446,860
Total	**2,570,408**	**-**	**446,860**	**3,017,268**

At 31 December 2011	Level 1	Level 2	Level 3	Total
Available for sale investments:				
Equity shares	2,594,454	-		2,594,454
Managed funds	-	-	812,952	812,952
Total	2,594,454	-	812,952	3,407,406

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 at fair value 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. Where fair values are not readily available and reliably measurable investments are carried at cost and the recoverable amount of such investment is estimated to test for impairment. In making a judgement of impairment, the Company evaluates among other factors, liquidity of the investee, evidence of deterioration in the financial health of the investee, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows.

At 31 December 2012, the Company had decline in fair value of certain AFS securities below cost by BD 37,820 (2011: BD 55,863) which has been assessed to be impaired in accordance with Company's policy. In addition, the Company has taken an additional impairment provision against AFS investments carried at cost of BD 93,447.

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 net realisable value 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. At 31 December 2012, BD 4,723 (2011: BD 4,723) has been provided for doubtful receivables.

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.

	2012	2011
Cash dividends (2012: 20 fils per share; 2011: 20 fils per share)	616,226	616,895
Statutory Reserve	-	43,715
Retained earnings	2,590,838	2,037,051

The board also recommends paying BD 90,000 (2011: BD 90,000) as board remuneration.

25 COMPARATIVES

Certain prior year amounts have been regrouped to conform to the presentation in the current year. Such regrouping do not affect previously reported net profit, comprehensive income or total equity.