

DELMON POULTRY COMPANY BSC
FINANCIAL STATEMENTS

31 DECEMBER 2004

Delmon Poultry Company BSC

FINANCIAL STATEMENTS for the year ended 31 December 2004

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GENERAL INFORMATION
2004 financial statements

Commercial registration	:	10700 (Bahrain joint stock company)
Board of directors	:	Mohamed Abdulla Al-Mannai (<i>Chairman</i>) Jaffar Habib Ahmed (<i>Vice chairman</i>) Yousuf Saleh Al-Saleh (<i>Managing director</i>) Abdul-Rahman Mohamed Jamsheer Abdulhussain Khalil Dawani Abdulredha Mohamed Al-Daylami Ibrahim Abdali Al-Daissi Jaffar Mohamed Ali Al-Dhaif Abdul Nabi Nasser Salman
General Manager	:	Mirza Hassan Al- Qassab
Offices and plants	:	Administration and chicken processing plant Hamala, PO Box 20535 Telephone 17601932, 17601933 Fax 17601930 Email depco@batelco.com.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 Standard Chartered
Auditors and registrars	:	KPMG

**REPORT OF THE AUDITORS TO THE SHAREHOLDERS
Delmon Poultry Company BSC
Manama, Kingdom of Bahrain**

9 March 2005

We have audited the financial statements of Delmon Poultry Company BSC as at, and for the year ended, 31 December 2004 set out on pages 3 to 15.

Respective responsibilities of directors and auditors

These financial statements are the responsibility of the directors of the company. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Delmon Poultry Company BSC as at 31 December 2004, the results of its operations, the changes in its shareholders' equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other regulatory matters

In addition, in our opinion, the company has maintained proper accounting records and the financial statements are in agreement therewith. We have reviewed the accompanying report of the board of directors and confirm that the information contained therein is consistent with the financial statements. To the best of our knowledge and belief, no violations of the Bahrain Commercial Companies Law 2001, or the terms of the company's memorandum and articles of association, have occurred during the year that might have had a material adverse effect on the business of the company or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

BALANCE SHEET
as at 31 December 2004

Bahraini dinars

	Notes	2004	2003
CURRENT ASSETS			
Cash and bank		443,002	246,178
Short-term fixed deposits		3,182,107	3,683,342
Trade receivables	3	649,370	670,686
Accrued income and other receivables	4	163,405	231,404
Inventories	5	1,226,976	1,373,362
Total current assets		5,664,860	6,204,972
NON-CURRENT ASSETS			
Available for sale investments	6	4,497,750	3,563,786
Held to maturity investments	7	639,449	158,319
Investment in associated company	8	836,620	624,828
Property, plant and equipment	9	789,429	947,621
TOTAL ASSETS		12,428,108	11,499,526
CURRENT LIABILITIES			
Trade payables		247,662	170,561
Accrued expenses and other current liabilities	10	255,001	203,183
Provision for labour law obligations		116,740	108,270
TOTAL LIABILITIES		619,403	482,014
SHAREHOLDERS' EQUITY			
Share capital	11	2,927,346	2,927,346
Reserves	12	7,949,977	6,228,545
Proposed appropriation		472,942	740,442
Retained earnings		458,440	1,121,179
Total shareholders' equity		11,808,705	11,017,512
Total Liabilities and shareholders' equity		12,428,108	11,499,526

The financial statements were approved by the board of directors on 9 March 2005 and signed on its behalf by:

Mohamed Abdulla Al-Mannai
Chairman

Yousuf Saleh Al-Saleh
Managing director

INCOME STATEMENT
for the year ended 31 December 2004

Bahraini dinars

	Chickens	Feed	Chicks	2004 Total	2003 Total
SALES					
Discounts	4,442,023	2,235,033	971,647	7,648,703	8,152,458
Cost of sales (note 13)	(71,727)	(60,844)	(931,827)	(132,571)	(192,380)
	(4,402,092)	(1,942,267)		(7,276,186)	(7,503,688)
GROSS PROFIT (LOSS)	(31,796)	231,922	39,820	239,946	456,390
OTHER OPERATING EXPENSES (note 14)	(200,929)	(147,069)	(42,533)	(390,531)	(403,344)
GOVERNMENT GRANT (note 15)	241,613	-	-	241,613	352,161
OPERATING PROFIT (LOSS)	8,888	84,853	(2,713)	91,028	405,207
OTHER INCOME					
Investment income (note 16)				194,046	312,881
Share of net profit in associate (note 8)				246,793	98,082
Other income				4,535	4,273
NET PROFIT FOR THE YEAR				536,402	820,443
Earning per share (note 11)				18 fils	28 fils

Mohamed Abdulla Al-Mannai
Chairman

Yousuf Saleh Al-Saleh
Managing director

STATEMENT OF CHANGE IN SHAREHOLDERS' EQUITY
for the year ended 31 December 2004

Bahraini dinars

	Share Capital	Treasury shares	Reserves	Retained earnings	Proposed appropriations	Total
2004						
Balance at 1 January	2,974,048	(46,702)	6,228,545	1,121,179	740,442	11,017,512
Transfer to reserves	-	-	922,559	(672,559)	(250,000)	-
Dividends declared for 2003	-	-	-	-	(440,942)	(440,942)
Directors' remunerations paid for 2003	-	-	-	-	(49,500)	(49,500)
Change in AFS investments fair value reserve	-	-	745,233	-	-	745,233
Net profit for the year	-	-	-	536,402	-	536,402
Appropriation	-	-	-	-	-	-
Dividends to shareholders	-	-	-	(440,942)	440,942	-
Statutory Reserve	-	-	53,640	(53,640)	-	-
Remuneration of Board of Directors	-	-	-	(32,000)	32,000	-
Balance at 31 December	2,974,048	(46,702)	7,949,977	458,440	472,942	11,808,705
2003						
Balance at 1 January	2,974,048	(46,702)	5,381,145	1,232,537	840,442	10,381,470
Transfer to income on sale of AFS investments	-	-	(15,914)	(109,315)	-	(125,229)
Transfer to reserves	-	-	350,000	-	(350,000)	-
Dividends declared for 2002	-	-	-	-	(440,942)	(440,942)
Directors' remunerations paid for 2002	-	-	-	-	(49,500)	(49,500)
Change in AFS investments fair value reserve	-	-	431,270	-	-	431,270
Net profit for the year	-	-	-	820,443	-	820,443
Appropriation	-	-	-	-	-	-
Dividends to shareholders	-	-	-	(440,942)	440,942	-
Statutory Reserve	-	-	82,044	(82,044)	-	-
General reserve	-	-	-	(250,000)	250,000	-
Remuneration of Board of Directors	-	-	-	(49,500)	49,500	-
Balance at 31 December	2,974,048	(46,702)	6,228,545	1,121,179	740,442	11,017,512

STATEMENT OF CASH FLOWS
for the year ended 31 December 2004

Bahraini dinars

	2004	2003
OPERATING ACTIVITIES		
Cash received from customers	7,544,858	6,714,815
Subsidies from Bahrain Government	283,629	298,898
Payments to suppliers	(6,378,976)	(5,054,572)
Payments to employees	(795,919)	(975,145)
Cash flows from operating activities	653,592	983,996
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(50,795)	(101,496)
Proceeds from sale of available for sale investment	-	436,112
Proceeds from investments matured during the year	113,100	247,948
Purchase of available for sale investments	(782,961)	(452,400)
Proceeds from sale of equipment	1,304	-
Interest and dividends received	232,515	195,718
Other receipts	-	300
Cash flows from investing activities	(486,837)	326,182
FINANCING ACTIVITIES		
Dividends paid	(429,916)	(437,876)
Directors' remuneration paid	(41,250)	(49,500)
Cash flows from financing activities	(471,166)	(487,376)
Net increase/(decrease) in cash and cash equivalents	(304,411)	822,802
CASH AND CASH EQUIVALENTS at beginning of the year	3,929,520	3,106,718
CASH AND CASH EQUIVALENTS at end of the year	3,625,109	3,929,520
Comprising:		
Cash and bank	443,002	246,178
Short-term fixed deposits	3,182,107	3,683,342
	3,625,109	3,929,520

**NOTES
to the 2004 financial statements**Bahraini dinars

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 Dumistan
- 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, the requirements of the Bahrain Commercial Company Law 2001 and the BMA disclosure standards.

b) Basis of preparation

The financial statements are prepared on the historical cost basis except for Available-for-Sale investments which are stated at their fair value.

The accounting policies have been applied by the company and are consistent with those used in the previous years.

c) Revenue recognition

Sales are recognised when a customer becomes entitled to take delivery of the goods. Income from investments is accounted for when dividends are declared. Bank interest and government subsidies are recognised when due.

d) Overhead expenses

Overhead expenses are allocated to chicken, feed and chicks on the basis of cost of sales.

e) Government grant

Government grant related to sales of chicken in Bahrain is recognised in the income statement as other operating revenue when the grant becomes receivables.

f) 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.

g) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into Bahraini dinars at rates ruling at the balance sheet date. Non-monetary assets denominated in foreign currencies are translated at historical rates. Transactions during the year are converted at the rate ruling at the time. Gains and losses are taken to the income statement.

NOTES
to the 2004 financial statements

Bahraini dinars

2 Significant accounting policies (continued)

h) Investment in associated company

An associate company is one in which parent company holds, directly or indirectly, more than 20% of the voting power and exercises significant influence over the financial and operating policies. Investment in associate companies are accounted for under the equity method of accounting.

i) Investments

Available-for-sale investments are initially measured at cost, including transaction costs, and subsequently re-measured to fair value. Fair value for quoted available-for-sale investments is their market bid price and unquoted securities is determined by reference to the net asset value of the investment. Unrealised gains and losses arising from changes in the fair values of available-for-sale investments are recognised in a fair value reserve as a separate component of shareholders' equity. In the event of sale, disposal collection or impairment, the related cumulative gains and losses recognised in equity are transferred to the income statement of that year.

Debt securities where the company has the positive intention and ability to hold to maturity are categorised as held-to-maturity investment securities and are stated at amortised cost less provision for impairment, if any.

j) Trade receivables

Trade receivables are stated at cost less allowances for impairments, if any.

k) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

l) 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 follows:

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.

m) 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 by the board of directors in 1997 as a result of the 1996 profit fluctuation due to the sudden world-wide increase in raw material prices. There are no restrictions on the distributions of this reserve.

n) Treasury shares

Payments for acquiring own shares are recognized as a change in equity. Repurchased shares are classified as treasury shares, carried at cost, and are presented as a deduction from equity.

NOTES
to the 2004 financial statements

Bahraini dinars

2 Significant accounting policies (continued)

o) Impairment

The carrying amount of the company's assets, other than inventories (refer accounting policy above) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the assets is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. All impairment losses are recognised in the income statement.

p) Cash and cash equivalents

Comprises cash in hand and at banks and short-term deposits. 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.

q) Proposed appropriations

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

r) Employees' end of service benefits

The company provides for end of service benefits determined in accordance with the Bahrain labour law based on non-Bahraini employees' salaries at the time at leaving and number of years of service. Although the expected cost of these benefits are accrued over the period of employment they are only paid to employees on completion of their term of employment with the company. Bahraini employees are covered under the General Organisation for Social Insurance Scheme and the Company's obligations are limited to the amounts contributed to the scheme.

3 TRADE RECEIVABLES

Balance at 31 December
 Provision for assets impairment

2004	2003
709,892 (60,522)	731,208 (60,522)
649,370	670,686

Balance at 31 December

4 ACCRUED INCOME AND OTHER RECEIVABLES

Accrued Income
 Advances to suppliers
 Prepaid expenses
 Others
 Provision for assets impairment

2004	2003
54,384	157,931
149,334	30,299
11,650	13,403
11,483	34,801
(63,446)	(5,030)
163,405	231,404

5 INVENTORIES

Finished goods
 - Feed
 - Frozen/chilled chicken
 Hatching eggs - hatchery
 Raw material and packing materials
 Spare parts for plant and machinery
 Goods in transit
 Provision for spoilage

2004	2003
25,684	17,738
250,993	268,126
50,790	58,653
504,694	333,495
400,479	432,049
-	268,936
(5,664)	(5,635)
1,226,976	1,373,362

NOTES
to the 2004 financial statements

Bahraini dinars

6 AVAILABLE-FOR-SALE INVESTMENTS

Quoted equity securities
 Unquoted equity securities
 Managed funds

2004	2003
2,432,305	1,629,276
20,944	19,999
2,044,501	1,914,511
4,497,750	3,563,786

Unquoted equity securities are stated at net asset value. There are no active markets or other appropriate methods from which to derive reliable fair values for these investments.

7 HELD-TO-MATURITY INVESTMENTS

Government of Oman bonds
 Government Islamic leasing securities

2004	2003
481,130	-
158,319	158,319
639,449	158,319

8 INVESTMENT IN ASSOCIATED COMPANY

On 1 January
 Profit for the year
 Dividends received

2004	2003
624,828	551,746
246,792	98,082
(35,000)	(25,000)
836,620	624,828

The company own 25% share in Bahrain Livestock Company BSC (closed).

In applying the equity method, the last Management Accounts as of 31 December 2004 have been used.

9 PROPERTY, PLANT AND EQUIPMENT**Cost**

At beginning of year
 Additions
 Transfer
 Disposals

At 31 December

	Buildings	Plant and machinery	Vehicles furniture, and tools	Work in progress	2004 Total	2003 Total
At beginning of year	3,400,352	4,107,099	1,539,484	34,333	9,081,268	8,892,152
Additions	-	9,445	21,195	20,155	50,795	189,116
Transfer	11,554	-	-	(11,554)	-	-
Disposals	-	-	(27,627)	-	(27,627)	-
At 31 December	3,411,906	4,116,544	1,533,052	42,934	9,104,436	9,081,268

Depreciation

At beginning of year
 Charge for the year
 Disposals

At 31 December

	3,040,616	3,854,958	1,238,073	-	8,133,647	7,837,681
At beginning of year	36,039	56,716	115,995	(27,390)	208,750	295,966
Charge for the year	-	-	-	-	(27,390)	-
At 31 December	3,076,655	3,911,674	1,326,678	-	8,315,007	8,133,647

Net carrying value
At 31 December 2004

	335,251	204,870	206,374	42,934	789,429	947,621
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At 31 December 2003

	359,736	252,141	301,411	34,333	947,621	1,054,471
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The reclaimed land at Mina Salman, on which the feedmill was built is owned by the Government. The cost of reclaiming the land was paid by the company and is included as part of the buildings cost.

NOTES**to the 2004 financial statements**

Bahraini dinars

10 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Unclaimed declared dividends (1986-2003)
 Payments received in advance from farmers
 Accrued expenses
 Miscellaneous payables

2004	2003
99,472	88,446
24,190	16,779
96,742	82,976
34,597	14,982
255,001	203,183

11 SHARE CAPITAL

Authorised: BD 10 million
Issued and fully paid: 29,740,480 shares of 100 fils each
 344,340 treasury shares

Net shares in public issue

2004	2003
2,974,048	2,974,048
(46,702)	(46,702)

Performance per share

Earnings per 100 fils share
 Net asset value per 100 fils share
 Stock Exchange price per 100 fils share at 31 December
 Stock Exchange price to earnings ratio
 Total market capitalisation at 31 December

18 fils	28 fils
404 fils	376 fils
303 fils	300 fils
16.8:1	10.7:1
8,907,030	8,818,842

Earnings per share is calculated based on the net profit for the year divided by the weighted average number of shares in issue during the year.

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.

Performance per share

The Pension Fund Commission Military & Civil
 General Poultry Company
 General Trading & Food Processing Company
 Abdulhameed Zainal Mohammed

Nationality	No. of shares	% holding
Bahraini	5,186,360	17.44
Bahraini	4,358,460	14.65
Bahraini	2,908,920	9.78
Bahraini	1,867,118	6.28

- (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

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	-	6	-	3

NOTES**to the 2004 financial statements**

Bahraini dinars

- (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%	10,177,668	1,598	34.22
1% up to less than 5%	5,241,954	9	17.63
5% up to less than 10%	4,776,038	2	16.06
10% up to less than 20%	9,544,820	2	32.09
	29,740,480	1,611	100.00

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

12 RESERVES**2004**

Balance at beginning of year
Transfer from retained earnings
Net fair value gains on available-for-sale investments

	Statutory reserve	General reserve	Development reserve	RM price fluctuation reserve	Fair value reserve	Total
Balance at beginning of year	924,124	3,743,000	700,000	300,000	561,421	6,228,545
Transfer from retained earnings	53,640	250,000	-	-	672,559	976,199
Net fair value gains on available-for-sale investments	-	-	-	-	745,233	745,233
Balance at 31 December	977,764	3,993,000	700,000	300,000	1,979,213	7,949,977

During the year, the balance of initial effect of IAS 39 implementation totaled BD 672,559 which was adopted in 2001 has been transferred from the retained earnings to fair value reserve. The purpose of the transfer is to keep track of changes in fair value of investment in one account.

2003

Balance at beginning of year
Transfer from retained earnings
Transfer to income on sale of AFS Investments
Net fair value gains on available-for-sale investments

	Statutory reserve	General reserve	Development reserve	RM price fluctuation reserve	Fair value reserve	Total
Balance at beginning of year	842,080	3,393,000	700,000	300,000	146,065	5,381,145
Transfer from retained earnings	82,044	350,000	-	-	-	432,044
Transfer to income on sale of AFS Investments	-	-	-	-	(15,914)	(15,914)
Net fair value gains on available-for-sale investments	-	-	-	-	431,270	431,270
Balance at 31 December	924,124	3,743,000	700,000	300,000	561,421	6,228,545

13 COST OF SALES

Raw materials

Staff cost

Depreciation

Other

Total

	Chicken	Feed	Chicks	Total 2004	Total 2003
Raw materials	3,595,759	1,648,442	767,321	6,011,522	6,037,810
Staff cost	543,500	190,000	84,724	818,224	857,617
Depreciation	101,105	12,562	46,145	159,812	251,966
Other	161,728	91,263	33,637	286,628	356,295
Total	4,402,092	1,942,267	931,827	7,276,186	7,503,688

NOTES
to the 2004 financial statements

Bahraini dinars

14 OVERHEAD EXPENSES

Staff cost
 Depreciation
 Provision for assets impairment
 Other

Total 2004	Total 2003
185,894	266,337
42,044	28,947
58,416	-
104,177	108,060
390,531	403,344

Total**15 GOVERNMENT GRANT**

Government grant related to feed ceased with effect 1 January 2004.

16 INVESTMENT INCOME

Profit on sale of AFS investments
 Interest income
 Dividend income

2004	2003
1885	141,528
53,679	48,011
138,482	123,342
194,046	312,881

17 RELATED PARTIES

Apart from managing director remuneration and board of directors and executive committee meeting attendance fees of BD 30,500 (2003: BD 20,000), the directors received no compensation from the company for their services during the year. No loans have been advanced to directors.

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

Amounts due from related parties
 Sales to related parties
 Purchases from related parties

2004	2003
69,086	321,369
478,189	1,109,731
466,655	352,913

18 CONTINGENT LIABILITIES

Bank guarantees
 Letters of credit

2004	2003
30,307	30,921
26,281	481,107

19 Employee benefits

The company employs 177 Bahrainis and 5 expatriates as at 31 December 2004 (2003: 178 Bahrainis and 5 expatriates).

Pension rights (and other social benefits) for **Bahraini employees** are covered by the General Organisation for Social Insurance 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 2004 amounted to BD 73,124 (2003: BD 75,854).

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 balance sheet date and is included in the balance sheet under "Provision for labour law obligation". The provision for the company at 31 December 2004 in respect of expatriate employees was BD10,704 (2003: BD 8,411).

**NOTES
to the 2004 financial statements**

Bahraini dinars

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the company include cash, deposit, receivables, available for sale investments and held to maturity investments.

Financial liabilities of the company include accounts payable and accrued liabilities.

Accounting policies for financial assets and liabilities are set out in note 2.

The risks associated with financial instruments and the company's approach to managing such risks are described below.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The company's bank and short-term deposits are at fixed interest rates and mature within one year and repricing occurs when funds are reinvested on maturity of a deposit. Investments in Rental Islamic government bonds carry fixed interest rates of 4%.

The effective interest rate is the historical rate for a fixed rate instrument carried at cost, and the current market rate for a floating rate instrument. The effective interest rate for fixed deposits was 1.5% (2003: 1.2%).

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and causes the other party to incur a financial loss.

Cash is placed with national banks having good credit ratings.

The company's exposure to credit risk is mainly in respect of trade receivables. Management seeks to limit credit risk by selectively granting credit terms to creditworthy customers and by limiting the credit period.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The company has investments in Bahraini dinars, and US dollars. The dinar is effectively pegged to the dollar.

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value.

Liquidity risk is managed by maintaining cash and cash equivalents at a high level so that sufficient funds are available, including unutilised credit facilities with banks, to meet any future commitments.

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether these changes are caused by factors specific to the individual security or its issuer or factors effecting all securities traded in the market.

The company is exposed to market risk with respect to its investments in available-for-sale securities.

**NOTES
to the 2004 financial statements**

Bahraini dinars

20 Financial instruments and risk management (continued)

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between the book values under the historical cost method and fair value estimates.

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 the company's investments are shown in note 2(i) and note 6.

The fair values of the company's cash, deposits, receivables, and payables, are not materially different from their carrying values.

21 PROPOSED 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.

Dividends to shareholders	
Statutory Reserve	
General reserve	
Remuneration of Board of Directors	

2004	2003
440,942	440,942
53,640	82,044
-	250,000
32,000	49,500
526,582	822,486