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**Shuaiba Industrial Company K.S.C. (Closed) and its subsidiary
Kuwait**

**Consolidated financial statements and independent auditors' report
For the year ended 31 December 2012**

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Al Johara Tower, 6th Floor
Khaled Ben Al Waleed Street, Sharq
P.O. Box 25578, Safat 13116
Kuwait
Tel: +965 2242 6999
Fax: +965 2240 1666
www.bdo.com.kw



P.O. Box : 636, Safat - 13007 Kuwait
Tel : + 965 - 22412880 / 22410885
Fax: + 965 - 22454248
Ali Al-Salem Str., Thuwaini Bldg. 3rd Flr.
E-Mail: alateeqi@ateeqipas.com
Website: www.ateeqipas.com

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS' OF SHUAIBA INDUSTRIAL COMPANY K.S.C. (CLOSED)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Shuaiba Industrial Company K.S.C. (Closed) ("the Parent Company") and its subsidiary (together referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

The Parent Company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion, proper books of account have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the Parent Company's board of directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all information that is required by the Commercial Companies Law No. 25 of 2012 and by the Parent Company's Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law No. 25 of 2012 nor of the Parent Company's Articles of Association, have occurred during the year that might have had a material effect on the business or the consolidated financial position of the Group.



Qais M. Al-Nisf
License No. 38-A
BDO Al Nisf & Partners



Barrak Al-Ateeqi
Licence No. 69 "A"
Al-Ateeqi Certified Accountants
Member firm of B.K.R. International

Kuwait: 4 March 2013

**Shuaiba Industrial Company K.S.C. (Closed) and its subsidiary
Kuwait**

Consolidated statement of financial position

As at 31 December 2012

	Notes	<u>2012</u> KD	<u>2011</u> KD
ASSETS			
Non-current assets			
Property, plant and equipment	5	8,922,487	8,837,528
Investment in associate	6	2,353,846	2,121,623
Available for sale financial assets	7	188,741	217,366
		<u>11,465,074</u>	<u>11,176,517</u>
Current assets			
Inventories	8	3,122,689	2,514,423
Trade receivables	9	1,785,685	1,770,341
Other receivables	10	105,731	121,366
Due from related party	24	66,000	978
Financial assets at fair value through profit or loss	11	477,997	456,056
Cash and cash equivalents	12	1,544,999	1,667,733
		<u>7,103,101</u>	<u>6,530,897</u>
Total assets		<u>18,568,175</u>	<u>17,707,414</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	13	6,137,405	5,845,147
Share premium	14	2,294,444	2,294,444
Statutory reserve	15	1,505,648	1,398,098
Voluntary reserve	16	1,414,640	1,307,090
Treasury shares	17	(253,265)	(253,265)
Treasury shares reserve		404,979	404,979
Fair value reserve		(31,696)	(125,871)
Foreign currency translation reserve		16,216	(43,699)
Retained earnings		4,091,889	3,586,535
Total equity		<u>15,580,260</u>	<u>14,413,458</u>
Non-current liabilities			
Non current portion of term loan	18	677,941	323,370
Provision for staff indemnity		348,538	296,868
		<u>1,026,479</u>	<u>620,238</u>
Current liabilities			
Trade and other payables	19	1,556,671	1,183,018
Current portion of term loan	18	200,000	191,032
Notes payable	20	204,765	1,299,668
		<u>1,961,436</u>	<u>2,673,718</u>
Total liabilities		<u>2,987,915</u>	<u>3,293,956</u>
Total equity and liabilities		<u>18,568,175</u>	<u>17,707,414</u>

The notes on pages 8 to 36 form an integral part of these consolidated financial statements.


Adel J. Al-Sane
 Chairman

**Shuaiba Industrial Company K.S.C. (Closed) and its subsidiary
Kuwait**

Consolidated statement of income

For the year ended 31 December 2012

	Notes	<u>2012</u> KD	<u>2011</u> KD
Revenue		9,882,189	10,091,257
Cost of sales		<u>(7,725,922)</u>	<u>(8,393,961)</u>
Gross profit		2,156,267	1,697,296
Unrealised loss on financial assets at fair value through profit or loss		(56,807)	(2,948)
Realised (loss) / profit on sale of financial assets at fair value through profit or loss		(31,679)	10,573
Loss on sale of available for sale financial assets		-	(153,206)
Share of results of associate	6	392,213	400,596
Investment income		1,500	4,650
Foreign exchange (loss) / gain		(10,736)	32,302
Other income		24,838	63,500
General and administrative expenses	21	(563,182)	(518,685)
Selling and distribution expenses		(676,390)	(489,414)
Finance costs		(38,130)	(48,585)
Impairment loss on available for sale financial assets	7	(122,800)	(9,065)
Impairment loss on property, plant and equipment	5	-	(10,935)
Reversal of provision for slow moving and obsolete inventories		-	51,563
Profit on disposal of property, plant and equipment		404	27,600
Profit before contribution to Kuwait Foundation for the Advancement of Sciences (KFAS), National Labour Support Tax (NLST), Zakat and Board of Directors' remuneration		1,075,498	1,055,242
KFAS		(9,679)	(9,497)
NLST		(26,850)	(26,265)
Zakat		(11,257)	(11,610)
Board of Directors' remuneration		<u>(15,000)</u>	<u>(5,000)</u>
Profit for the year	22	<u>1,012,712</u>	<u>1,002,870</u>
Earnings per share	23	<u>16.87 fils</u>	<u>16.71 fils</u>

The notes on pages 8 to 36 form an integral part of these consolidated financial statements.

**Shuaiba Industrial Company K.S.C. (Closed) and its subsidiary
Kuwait**

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	<u>2012</u>	<u>2011</u>
	KD	KD
Profit for the year	<u>1,012,712</u>	<u>1,002,870</u>
Other comprehensive income		
Available for sale financial assets:		
-Change in fair value	(28,625)	(34,656)
-Transfer to consolidated statement of income on impairment	122,800	9,065
Foreign currency translation adjustments	59,915	(14,112)
Other comprehensive income / (loss) for the year	<u>154,090</u>	<u>(39,703)</u>
Total comprehensive income for the year	<u>1,166,802</u>	<u>963,167</u>

The notes on pages 8 to 36 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Share capital KD	Share premium KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Treasury shares reserve KD	Fair value reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Total equity KD
Balance at 1 January 2011	5,566,807	2,294,444	1,292,574	1,201,566	(253,265)	404,979	(100,280)	(29,587)	3,617,380	13,994,618
Profit for the year	-	-	-	-	-	-	-	-	1,002,870	1,002,870
Other comprehensive income:										
Change in fair value of available for sale financial assets	-	-	-	-	-	-	(34,656)	-	-	(34,656)
Impairment loss on available for sale financial assets transferred to the consolidated statement of income	-	-	-	-	-	-	9,065	-	-	9,065
Foreign currency translation adjustments	-	-	-	-	-	-	-	(14,112)	-	(14,112)
Total comprehensive (loss) / income for the year	-	-	-	-	-	-	(25,591)	(14,112)	1,002,870	963,167
Issue of bonus shares (Note 28)	278,340	-	-	-	-	-	-	-	(278,340)	-
Dividends paid 2010 (Note 28)	-	-	-	-	-	-	-	-	(544,327)	(544,327)
Transfer to reserves	-	-	105,524	105,524	-	-	-	-	(211,048)	-
Balance at 31 December 2011	5,845,147	2,294,444	1,398,098	1,307,090	(253,265)	404,979	(125,871)	(43,699)	3,586,535	14,413,458
Profit for the year	-	-	-	-	-	-	-	-	1,012,712	1,012,712
Other comprehensive income:										
Change in fair value of available for sale financial assets	-	-	-	-	-	-	(28,625)	-	-	(28,625)
Impairment loss on available for sale financial assets transferred to the consolidated statement of income	-	-	-	-	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	122,800	-	-	122,800
Total comprehensive income for the year	-	-	-	-	-	-	94,175	59,915	1,012,712	1,166,802
Issue of bonus shares (Note 28)	292,258	-	-	-	-	-	-	-	(292,258)	-
Transfer to reserves	-	-	107,550	107,550	-	-	-	-	(215,100)	-
Balance at 31 December 2012	6,137,405	2,294,444	1,505,648	1,414,640	(253,265)	404,979	(31,696)	16,216	4,091,889	15,580,260

The notes on pages 8 to 36 form an integral part of these consolidated financial statements.

**Shuaiba Industrial Company K.S.C. (Closed) and its subsidiary
Kuwait**

Consolidated statement of cash flows

For the year ended 31 December 2012

	2012	2011
	KD	KD
OPERATING ACTIVITIES		
Profit for the year	1,012,712	1,002,870
Adjustments for:		
Depreciation and impairment	367,035	290,335
Finance costs	38,130	48,585
Provision for staff indemnity	55,097	62,275
Impairment loss on available for sale financial assets	122,800	9,065
Reversal of provision for slow moving and obsolete inventories	-	(51,563)
Realised loss on available for sale financial assets	-	153,206
Profit on disposal of property, plant and equipment	(404)	(27,600)
Realised loss / (gain) on financial assets at fair value through profit or loss	31,679	(10,573)
Unrealised loss on financial assets at fair value through profit or loss	56,807	2,948
Share of results of associate	(392,213)	(400,596)
	<u>1,291,643</u>	<u>1,078,952</u>
Movements in working capital:		
Inventories	(608,266)	793,060
Trade receivables	(15,344)	(531,540)
Other receivables	15,638	414,496
Due from related party	1,030	9,269
Trade and other payables	369,498	607,312
Notes payables	(1,094,903)	160,917
Cash (used in) / generated from operations	<u>(40,704)</u>	<u>2,532,466</u>
Staff indemnity paid	(3,427)	(11,481)
Net cash (used in) / from operating activities	<u>(44,131)</u>	<u>2,520,985</u>
INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	(275,493)	(204,538)
Proceed from sale of financial assets at fair value through profit or loss	99,009	99,668
Purchase of property, plant and equipment	(394,873)	(3,055,967)
Proceeds from sale of available for sale financial assets	-	220,682
Proceeds from disposal of property, plant and equipment	405	80,543
Dividend received from an associate	177,115	-
Net cash used in investing activities	<u>(393,837)</u>	<u>(2,859,612)</u>
FINANCING ACTIVITIES		
Receipt of term loan	2,050,170	606,254
Repayment of term loan	(1,686,631)	(311,852)
Dividends paid	-	(544,327)
Finance costs paid	(33,975)	(48,585)
Net cash from / (used in) financing activities	<u>329,564</u>	<u>(298,510)</u>
Effect of foreign currency translation	(14,330)	14,112
Net decrease in cash and cash equivalents	<u>(122,734)</u>	<u>(637,137)</u>
Cash and cash equivalents at beginning of the year	<u>1,667,733</u>	<u>2,290,758</u>
Cash and cash equivalents at end of the year	12 <u>1,544,999</u>	<u>1,667,733</u>

The notes on pages 8 to 36 form an integral part of these consolidated financial statements.

**Shuaiba Industrial Company K.S.C. (Closed) and its subsidiary
Kuwait**

Notes to the consolidated financial statements

For the year ended 31 December 2012

1. GENERAL INFORMATION

Shuaiba Industrial Company K.S.C. (Closed) (“the Company”), is a closed shareholding company incorporated in 1978 in accordance with the Commercial Companies Law in the State of Kuwait and is listed on the Kuwait Stock Exchange.

The Group comprises of the Parent Company and its subsidiary (see note 3.3).

The Parent Company is engaged in the manufacture and sale of paper products. At the annual general assembly held on 29 March 2010, the shareholders approved the Group to conduct its activities in accordance with Islamic Sharia Principles.

The address of the Parent Company’s registered office is P.O. Box, 10088, Shuaiba 65451, State of Kuwait.

The consolidated financial statements of the Group for the year ended 31 December 2012 were approved and authorized for issue by the Parent Company’s board of directors on 4 March 2013 and are subject to the approval of the Annual General Assembly of the shareholders. The shareholders of the Parent Company have the power to amend these consolidated financial statements at the Annual General Assembly.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 New and revised IFRSs adopted by the Group

The Group has adopted the following amended IFRS during the year:

Amendments to IFRS 7, ‘Financial instruments: Disclosures’, on transfer of financial assets (Effective for annual periods beginning on or after 1 July 2011)

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group’s financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity’s continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

2.2 New standards, interpretations and amendments not yet effective and not early adopted

The Group has not applied the following new and revised IFRSs that have been issued and are not yet effective for annual periods beginning on or after 1 January 2012:

Notes to the consolidated financial statements

For the year ended 31 December 2012

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

2.2 *New standards, interpretations and amendments not yet effective and not early adopted(Continued)*

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (Effective for annual periods beginning on or after 1 July 2012)

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to IAS 19 Employee benefits (as revised in 2011) (Effective for annual periods beginning on or after 1 January 2013)

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require recognition of changes in defined benefit obligations and fair value changes of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions.

IAS 27 Separate Financial Statements (as revised in 2011) (Effective for annual periods beginning on or after 1 January 2013)

The amended version of IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. The standard outlines the accounting and disclosure requirements for 'separate financial statements', which are financial statements prepared by a parent, or an investor in a joint venture or associate, where those investments are accounted for either at cost or in accordance with IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments. The standard also outlines the accounting requirements for dividends and contains numerous disclosure requirements.

Notes to the consolidated financial statements

For the year ended 31 December 2012

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

2.2 *New standards, interpretations and amendments not yet effective and not early adopted(Continued)*

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) (Effective for annual periods beginning on or after 1 January 2013)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 'Financial instruments: Presentation', on asset and liability offsetting (Effective for annual periods beginning on or after 1 January 2014)

These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014 and require retrospective application

Amendments to IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities (Effective for annual periods beginning on or after 1 January 2013)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 9 'Financial instruments' (Effective for annual periods beginning on or after 1 January 2015)

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the

Notes to the consolidated financial statements

For the year ended 31 December 2012

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

2.2 *New standards, interpretations and amendments not yet effective and not early adopted(Continued)*

IFRS 9 'Financial instruments' (Effective for annual periods beginning on or after 1 January 2015)(Continued)

IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no earlier than the accounting period beginning on or after 1 January 2015.

IFRS 10 'Consolidated financial statements' (Effective for annual periods beginning on or after 1 January 2013)

The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and become effective for annual periods beginning on or after 1 January 2013.

IFRS 11 'Joint Arrangements' (Effective for annual periods beginning on or after 1 January 2013)

The standard replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting. The Group is yet to assess IFRS 11's full impact and becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 'Disclosures of interests in other entities' (Effective for annual periods beginning on or after 1 January 2013)

The standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

**Shuaiba Industrial Company K.S.C. (Closed) and its subsidiary
Kuwait**

Notes to the consolidated financial statements

For the year ended 31 December 2012

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

2.2 *New standards, interpretations and amendments not yet effective and not early adopted(Continued)*

IFRS 13 'Fair value measurement' (Effective for annual periods beginning on or after 1 January 2013)

The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

Annual Improvements to IFRSs 2009-2011 Cycle (Effective for annual periods beginning on or after 1 January 2013):

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

**Shuaiba Industrial Company K.S.C. (Closed) and its subsidiary
Kuwait**

Notes to the consolidated financial statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention, except for available sale financial assets and financial assets at fair value through profit or loss that are stated at fair value.

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Parent Company's functional and presentation currency.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.2 Statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), IFRIC interpretations, and applicable requirements of Ministerial Order No. 18 of 1990.

On 29 November 2012, Commercial Companies Law No. 25 of 2012 was issued, and in accordance with Article No. 2 of the new law, the Parent Company is allowed to adopt the provisions of the law within a period of six months from its effective date.

3.3 Basis of consolidation

The consolidated financial statements comprise the Parent Company and its subsidiary drawn up to 31 December 2012 (see below).

Subsidiaries are all entities over which the Parent Company has the power to control the financial and operating policies. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Intercompany balances and transactions, including intercompany profits and unrealized profits and losses are eliminated in full on consolidation. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of amount of those interests at the date of original business combination and the non-controlling entity's share of changes in equity since the date of the combination. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the group losing control over the subsidiaries are accounted for as equity transactions. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Basis of consolidation (Continued)

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs).

Details of the wholly owned subsidiary is as follows:

<u>Name of subsidiary</u>	<u>Principal activity</u>	<u>Ownership interest</u>	<u>Place of incorporation and operation</u>
Advance Technologies (International Agencies) Co. W.L.L	Commercial agencies	99%	Kuwait

3.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, finance costs capitalised in accordance with the Group's accounting policy (see finance costs policy). Depreciation is calculated

based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use. The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on prospective basis. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacements of assets are capitalised. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in consolidated statement of income in the period in which they occur.

3.5 Impairment of non- financial assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Notes to the consolidated financial statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Impairment of non-financial assets (Continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.6 Investment in associates

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Group's investment in associates is accounted for under the equity method of accounting, i.e. on the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value and the consolidated statement of income reflects the Group's share of the results of operations of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group'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 consolidated statement of income.

All subsequent changes to the Group's share of interest in the equity of the associate are recognised in the carrying amount of the investment. Distributions received from associates reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Group's share in the associate arising from changes resulting from other comprehensive income of the associate or items recognised directly in the associate's or equity of the Group, as applicable.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Investment in associates (Continued)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions with associate are eliminated to the extent of the Group's share in the associate. Unrealised losses are also eliminated unless the transactions provide evidence of impairment in the asset transferred. An assessment for impairment of investments in associates is performed when there is an indication that the asset has been impaired, or that impairment losses recognised in prior years no longer exist.

The associate's financial statements are prepared either to the Parent Company's reporting date or to a date not earlier than three months of the Parent Company's reporting date. Amounts reported in the financial statements of associates have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. Where practicable, adjustments are made for the effect of significant transactions or other events that occurred between the reporting date of the associates and the Parent Company's reporting date.

3.7 Financial assets

Classification, initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as "loans and receivables", "financial assets at fair value through profit or loss", and "available for sale financial assets". The classification depends on the purpose for which financial assets were acquired and it is determined at initial recognition.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of income.

A "regular way" purchase of financial assets is recognised using the trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

The Group has not classified any of its financial assets as held to maturity.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets as fair value through profit or loss

A financial asset at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Financial assets designated upon initial recognition at fair value through profit and loss are designated at their initial recognition date and only if the criteria under IAS 39 are satisfied. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of income.

Notes to the consolidated financial statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Financial asset (Continued)

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest rate method, less impairment. Loans and receivables include Cash and Cash equivalents, Trade receivables and Due from related parties.

Amortised cost

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the interest rate method. The interest rate method amortisation and the losses arising from impairment are recognised in the consolidated statement of income.

Available for sale financial assets

Available for sale financial assets include equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available for sale financial assets are measured at fair value with unrealised gain or loss recognised in other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recycled to the consolidated statement of income, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of income.

Available for sale financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred substantially all the risks and rewards of ownership.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted.

For equity investments classified as Available for Sale Financial Assets (AFS), a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Notes to the consolidated financial statements

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Financial asset (Continued)

Impairment of financial assets (Continued)

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

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Individual impairment is identified at counterparty specific level; following objective evidence the financial asset is impaired. This may be after an interest or principal payment is defaulted or when a contract covenant is breached. The present value of estimated cash flow recoverable is determined after taking into account any security held.

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

With the exception of AFS equity investments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through consolidated statement of income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised through consolidated statement of income are not reversed through consolidated statement of income. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

3.8 Financial liabilities

Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as "other than at fair value through statement of income". These are subsequently remeasured at amortised cost. Financial liabilities include Term loans, Notes payable and Trade and other payables.

Term Loans and notes payables

Term loans and notes payable are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, term loans and notes payable are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated statement of income over the period of the loans and notes payable on an effective yield basis.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial liabilities (Continued)

Trade and other payables

Liabilities are recognised for amount to be paid in the future for goods or services received, whether billed or not. Notes payables, trade and other payables are subsequently measured at amortised cost using the effective yield method.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised.

Cash and cash equivalents

Cash on hand, bank demand account balances, time deposits with banks whose maturities do not exceed a period of three months from acquisition date and cash balance with portfolio manager are classified as cash and cash equivalents.

3.9 Inventories

Finished goods are stated at the lower of weighted average cost and net realisable value. The cost of finished products includes direct materials, direct labour and fixed and variable manufacturing overhead and other costs incurred in bringing inventories to their present location and condition.

Spare parts are not intended for resale and are valued at cost after making allowance for any slow moving items. Cost is determined on a weighted average basis.

All other inventory items are valued at the lower of purchased cost or net realisable value using the weighted average method after making provision for any slow moving stocks. Purchase cost includes the purchase price, import duties, transportation, handling and other direct costs.

3.10 Equity, reserves and dividend payments

Share capital represents the nominal value of shares that have been issued.

Statutory and voluntary reserves represents amounts transferred from profits in accordance with Commercial Companies Law and the Parent Company's articles of association (Note 15 and 1).

Foreign currency translation differences arising on the translation of the Group's foreign entities are included in the translation reserve. Gains or losses on certain financial instruments are included in fair value reserve for available for sale financial assets.

Retained earnings include all current and prior period retained profits.

Dividends are recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the shareholders.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11 Treasury shares

Treasury shares consist of the Parent Company's own shares that have been issued, subsequently reacquired by the Parent Company and not yet reissued, sold or cancelled. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the treasury shares. Consideration paid or received is directly recognized in equity. When the treasury shares are sold, gains are credited to a separate account in shareholders' equity (treasury shares reserve) which is not distributable. Any realized losses are charged to the same account to the extent of the credit balance on that account. Any excess losses are charged to retained earnings and then to reserves.

Gains realized subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and treasury shares reserve account. No cash dividends are paid on these shares. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

3.12 Provision for staff indemnity

Provision is made for amounts payable to employees under the Kuwaiti Labour Law and employment contracts. This liability, which is unfunded, represents the amount payable to each employee as a result of involuntary termination on the reporting date, and approximates the present value of the final obligation.

3.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3.14 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Revenue recognition (Continued)

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Yield income is recognised on an accrual basis using the effective yield method.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

3.15 Finance costs

Finance costs primarily comprise interest on the Group's financing. Finance costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other finance costs are expensed in the period in which they are incurred and are recognised in the consolidated statement of income in the period in which they are incurred.

3.16 Foreign currency translation

The consolidated financial statements are presented in currency (KD), which is also the functional currency of the Parent Company.

Transactions and balances

Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of transactions. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated statement of income for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated statement of income for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

Group companies

The assets and liabilities of the Group's foreign operations are expressed in KD using exchange rates prevailing at the statement of financial position date. Income and expense items are translated into the Group's presentation currency at the average rate over the reporting period. Exchange differences are charged / credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into KD at the closing rate.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Contribution to Kuwait Foundation for the Advancement of Sciences

The Group is legally required to contribute to the Kuwait Foundation for the Advancement of Sciences ("KFAS"). The Group's contributions to KFAS are recognised as an expense in the period during which the Group's contribution is legally required. KFAS is imposed at 1% of net profit attributable to the equity holders of the Parent Company, less permitted deductions.

3.18 National Labour Support tax

The Group calculates National Labour Support Tax ("NLST") in accordance with the Ministry of Finance resolution No.19 of 2000. NLST is imposed at 2.5% of net profit attributable to the equity holders of the Parent Company, less permitted deductions.

3.19 Zakat

The Group has provided for Zakat in accordance with the requirements of Law No. 46 of 2006. Zakat is imposed at 1% of net profit attributable to the equity holders of the Parent Company, less permitted deductions.

3.20 Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

Contingent asset are not recognised in the consolidated statement of financial position, but are disclosed when an inflow of economic benefits is probable.

3.21 Segment information

A segment is a distinguishable component of the Group that engages in business activities from which it earns revenue and incurs cost. The operating segments used by the management of the Group to allocate resources and assess performance are consistent with the internal report provided to the chief operating decision maker. Operating segment exhibiting similar economic characteristic, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

Accounting judgements

In the process of applying the Group's accounting policies, management has used judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Impairment of investments

The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgement. In addition, the Group also evaluates among other factors, normal volatility in the share price for quoted investments and the future cash flows and the discount factors for unquoted investments.

Notes to the consolidated financial statements

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**4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY
(Continued)**

Classification of investments

Management decides on acquisition of an investment whether it should be classified as financial assets at fair value through profit or loss or as available for sale financial assets.

Classification of investments as financial assets at fair value through profit or loss depends on how management monitor the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of income statement in the management accounts, they are classified as at fair value through profit or loss. All other investments are classified as available for sale.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation.

Impairment of trade receivables

An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the financial position date, gross trade receivables were KD 1,841,393 (2011: KD 1,905,929), and the allowance for doubtful debts was KD 55,708 (2011: KD 135,588). Any difference between the amounts actually collected in future periods and the amounts expected to be collected will be recognized in the consolidated statement of income.

Useful lives of tangible assets

As described in notes 3.2, the Group reviews the estimated useful lives over which its tangible assets are depreciated. The Group's management is satisfied that the estimates of useful lives are appropriate.

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5. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land KD	Buildings KD	Machinery KD	Furniture and fixtures KD	Motor vehicles KD	Capital work in progress KD	Total KD
Cost							
Balance at 1 January 2011	555,000	1,980,972	4,277,436	498,783	221,793	880,340	8,414,324
Additions	-	-	1,200	3,087	-	3,197,320	3,201,607
Transfers	-	69,859	897,048	58,511	-	(1,025,418)	-
Disposals	-	-	(159,016)	(1,469)	-	-	(160,485)
Balance at 31 December 2011	555,000	2,050,831	5,016,668	558,912	221,793	3,052,242	11,455,446
Additions	-	81,245	17,464	30,565	7,325	258,275	394,874
Transfers	-	1,411,596	1,798,478	59,270	30,824	(3,300,168)	-
Disposals	-	-	-	(1,149)	(6,700)	-	(7,849)
Foreign currency exchange difference	-	25,811	30,410	722	505	-	57,448
Balance at 31 December 2012	555,000	3,569,483	6,863,020	648,320	253,747	10,349	11,899,919
Accumulated depreciation							
Balance at 1 January 2011	-	527,169	1,314,591	424,673	168,692	-	2,435,125
Charge for the year	-	80,585	152,718	30,444	15,653	-	279,400
Relating to disposal	-	-	(106,077)	(1,465)	-	-	(107,542)
Impairment loss	-	-	10,935	-	-	-	10,935
Balance at 31 December 2011	-	607,754	1,372,167	453,652	184,345	-	2,617,918
Charge for the year	-	107,932	198,417	43,215	17,471	-	367,035
Relating to disposals	-	-	-	(1,149)	(6,699)	-	(7,848)
Foreign currency exchange difference	-	137	151	21	18	-	327
Balance at 31 December 2012	-	715,823	1,570,735	495,739	195,135	-	2,977,432
Carrying amount							
As at 31 December 2012	555,000	2,853,660	5,292,285	152,581	58,612	10,349	8,922,487
As at 31 December 2011	555,000	1,443,077	3,644,501	105,260	37,448	3,052,242	8,837,528
Annual depreciation rates	-	3.33%	3.33%	20%	20%	-	-

The Group's certain property, plant and equipment have been assigned as security for the term loan facility granted to the Parent Company (see note 18).
The buildings are constructed on the leasehold land from the government of Kuwait.

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6. INVESTMENT IN ASSOCIATE

<u>Name of associate</u>	<u>Country of incorporation</u>	<u>Ownership interest (%)</u>		<u>Carrying value</u>	
		<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
		%	%	KD	KD
Yanbu Saudi Kuwaiti Paper Product Company Limited	Saudi Arabia	40	40	<u>2,353,846</u>	<u>2,121,623</u>

Summarised financial information in respect of the Group's associate is set out below:

	<u>2012</u>	<u>2011</u>
	KD	KD
Associate's financial position:		
Total assets	<u>6,804,497</u>	<u>6,680,196</u>
Total liabilities	<u>919,882</u>	<u>1,376,138</u>
Net assets	<u>5,884,615</u>	<u>5,304,058</u>
Group's share of net assets of associate	<u>2,353,846</u>	<u>2,121,623</u>
Revenues	<u>7,388,516</u>	<u>7,437,571</u>
Profit	<u>980,534</u>	<u>1,001,490</u>
Group's share of results of associate	<u>392,213</u>	<u>400,596</u>
Group's share of other comprehensive income / (loss)	<u>17,124</u>	<u>(14,112)</u>

7. AVAILABLE FOR SALE FINANCIAL ASSETS

	<u>2012</u>	<u>2011</u>
	KD	KD
Quoted securities	<u>151,898</u>	<u>165,523</u>
Unquoted securities	<u>36,843</u>	<u>51,843</u>
	<u>188,741</u>	<u>217,366</u>

Available for sale financial assets are acquired with the intention of capital appreciation over a medium to long-term time frame. Unquoted securities amounting to KD 36,843 (2011: KD 51,843) are carried at cost since their fair values could not be measured reliably. The management is not aware of any impairment of these investments.

The Group has recognised an impairment loss of KD 122,800 (2011: KD 9,065) in respect of available for sale financial assets.

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8. INVENTORIES

	<u>2012</u>	<u>2011</u>
	KD	KD
Raw materials	2,709,614	2,167,848
Finished goods	303,916	106,908
Spare parts	169,454	180,871
Goods-in-transit	69,459	188,550
	<u>3,252,443</u>	<u>2,644,177</u>
Allowance for slow moving inventories	(129,754)	(129,754)
	<u>3,122,689</u>	<u>2,514,423</u>

9. TRADE RECEIVABLES

	<u>2012</u>	<u>2011</u>
	KD	KD
Trade receivables	1,841,393	1,905,929
Allowance for doubtful debts	(55,708)	(135,588)
	<u>1,785,685</u>	<u>1,770,341</u>

Movement in the allowance for doubtful debts:

	<u>2012</u>	<u>2011</u>
	KD	KD
Balance at beginning of the year	135,588	135,588
Amounts written back to consolidated statement of income during the year	(79,880)	-
Balance at end of the year	<u>55,708</u>	<u>135,588</u>

At the reporting date, 48% of the net trade receivables are due from 10 customers (2011 - 52% from 10 customers).

At 31 December 2012, trade receivables amounting to KD 91,544 (2011: KD 40,656) were past due but not considered to be impaired. The ageing analysis of these receivables is as follows:

Ageing of past due but not impaired trade receivable

	<u>2012</u>	<u>2011</u>
	KD	KD
91 – 120 days	1,003	-
121 – 180 days	4,512	31,005
181 – 360 days	86,029	9,651
Total	<u>91,544</u>	<u>40,656</u>

At 31 December 2012, trade receivables of KD 1,694,141 (2011: KD 1,729,685) are neither past due nor impaired.

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10. OTHER RECEIVABLES

	<u>2012</u>	<u>2011</u>
	KD	KD
Advance to suppliers	-	27,142
Prepayments	65,215	50,436
Deposits	20,267	16,866
Staff receivables	16,646	16,770
Others	3,603	10,152
	<u>105,731</u>	<u>121,366</u>

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2012</u>	<u>2011</u>
	KD	KD
Trading:		
Local quoted securities	379,497	228,556
Local unquoted securities	-	108,000
Local funds	98,500	119,500
	<u>477,997</u>	<u>456,056</u>

Financial assets at fair value through profit or loss are managed by a portfolio manager.

12. CASH AND CASH EQUIVALENTS

	<u>2012</u>	<u>2011</u>
	KD	KD
Cash at bank and on hand	912,241	1,104,272
Short term deposits	576,806	549,478
Cash balance with portfolio manager	55,952	13,983
	<u>1,544,999</u>	<u>1,667,733</u>

The Group's short term deposits with banks yield at an average rate of 0.55% to 1.125% (2011: 1% to 1.25 %) per annum and mature within three months from the date of deposit.

13. SHARE CAPITAL

The authorized, issued and fully paid up share capital of the Parent Company consists of 61,374,047 (2011: 58,451,474) shares of 100 fils each.

14. SHARE PREMIUM

The share premium account is not available for distribution.

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15. STATUTORY RESERVE

In accordance with the Commercial Companies Law, and the Parent Company's articles of association, 10% of the profit for the year is required to be transferred to the statutory reserve until the reserve totals 50% of the paid up share capital. Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount

16. VOLUNTARY RESERVE

As required by the Parent Company's articles of association, 10% of the profit for the year is required to be transferred to the voluntary reserve. Such annual transfers can be discontinued by resolution of shareholders in the annual general assembly meeting upon recommendation by the board of directors. There are no restrictions on the distribution of this reserve.

17. TREASURY SHARES

	<u>2012</u>	<u>2011</u>
Number of shares	1,361,956	1,297,101
Percentage of issued shares	2.22%	2.22%
Market value (KD)	242,428	233,478
Cost (KD)	253,265	253,265

Reserves of the Parent Company equivalent to the cost of treasury shares have been earmarked as non-distributable.

18. TERM LOAN

	<u>2012</u>	<u>2011</u>
	KD	KD
Current portion	200,000	191,032
Non-current portion	677,941	323,370
	<u>877,941</u>	<u>514,402</u>

Term loan from a local bank carries finance cost at 3.5 % (2011: 3.5%) per annum and is repayable as follows:

	<u>2012</u>	<u>2011</u>
	KD	KD
Payable in 1 year or less	200,000	191,032
Payable in 1-2 years	200,000	265,429
Payable in 2-5 years	477,941	57,941
	<u>877,941</u>	<u>514,402</u>

The Group's certain property, plant and equipment are pledged as collateral against the term loans obtained from the local bank (see note 5).

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19. TRADE AND OTHER PAYABLES

	<u>2012</u>	<u>2011</u>
	KD	KD
Trade payables	1,167,032	332,622
Payable to contractors	-	533,082
Dividend payable	67,323	69,677
Employees' accrued leave pay	63,785	56,726
Advance from customers	14,952	8,100
KFAS payables	9,679	9,497
NLST payable	26,850	26,265
Zakat payable	11,257	11,610
Board of Directors' remuneration payable	15,000	5,000
Staff bonus	101,072	79,785
Accrued finance cost	8,035	3,880
Others	71,686	46,774
	<u>1,556,671</u>	<u>1,183,018</u>

20. NOTES PAYABLE

Notes payable represent promissory notes issued by local banks which mature within three months from the issue date and bear an average finance cost of 5.75% (2011: 5.75%) per annum and are unsecured.

21. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2012</u>	<u>2011</u>
	KD	KD
Staff costs	370,467	348,980
Depreciation	24,802	14,940
Others	167,913	154,765
	<u>563,182</u>	<u>518,685</u>

22. STAFF COSTS AND DEPRECIATION

Staff costs and depreciation charges are included in the consolidated statement of income under the following categories:

	<u>2012</u>	<u>2011</u>
	KD	KD
Staff costs:		
Cost of sales	629,265	576,232
General and administrative expenses	370,467	348,980
Selling and distribution expenses	149,480	113,859
	<u>1,149,212</u>	<u>1,039,071</u>
Depreciation:		
Cost of sales	340,983	274,542
General and administrative expenses	24,802	14,940
Selling and distribution expenses	1,250	853
	<u>367,035</u>	<u>290,335</u>

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23. EARNINGS PER SHARE

Earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

	<u>2012</u>	<u>2011</u>
Profit for the year (KD)	1,012,712	1,002,870
Weighted average number of shares outstanding:		
Number of issued shares	61,374,050	61,374,050
Less: Weighted average number of treasury shares	<u>(1,361,956)</u>	<u>(1,361,956)</u>
Weighted average number of shares outstanding	<u>60,012,094</u>	<u>60,012,094</u>
Earnings per share (Basic and diluted)	<u>16.87 fils</u>	<u>16.71 fils</u>

Reported earnings per share for the year ended 31 December 2011 was 17.55 fils retroactive before retrospective adjustment to the number of shares following the bonus issue (see note 28).

24. RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Transactions and balances with related parties are as follows:

	<u>2012</u>	<u>2011</u>
	KD	KD
Balances:		
a) Due from related party	<u>66,000</u>	<u>978</u>
Transactions:		
Key management compensation		
• Salaries and other short-term benefits	76,144	52,338
• Provision for staff indemnity	<u>5,885</u>	<u>5,885</u>

25. SEGMENT REPORTING

The Group identifies its operating segments on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to assess its performance. The management has grouped the Group's products and services into the following operating segments:

- Industrial Packaging Division
- Commercial Packaging Division
- Flexible Packaging Division
- Trading Division

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25.. SEGMENT REPORTING (Continued)

The following is an analysis of the Group's revenue and results by operating segments for the year:

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	KD	KD	KD	KD
	<u>Revenue</u>		<u>Segment results</u>	
Industrial Packaging Division	6,109,029	5,604,938	1,307,286	922,599
Commercial Packaging Division	2,601,139	2,623,864	697,215	635,364
Flexible Packaging Division	906,240	1,014,829	121,732	78,249
Trading Division	265,781	847,626	30,034	61,084
	<u>9,882,189</u>	<u>10,091,257</u>	<u>2,156,267</u>	<u>1,697,296</u>
Unrealized loss on financial assets at fair value through profit or loss			(56,807)	(2,948)
Realized (loss) / profit on sale of financial assets at fair value through profit or loss			(31,679)	10,573
Loss on sale of available for sale financial assets			-	(153,206)
Share of results of associates			392,213	400,596
Investment income			1,500	4,650
Foreign exchange (loss) / gain			(10,736)	32,302
Other income			24,838	63,500
General and administrative expenses			(563,182)	(518,685)
Selling and distribution expenses			(676,390)	(489,414)
Finance costs			(38,130)	(48,585)
Impairment loss on available for sale financial assets			(122,800)	(9,065)
Impairment loss on property, plant and equipment			-	(10,935)
Reversal of provision for slow moving and obsolete inventories			-	51,563
Profit on disposal of property, plant and equipment			404	27,600
KFAS			(9,679)	(9,497)
NLST			(26,850)	(26,265)
Zakat			(11,257)	(11,610)
Board of directors' remuneration			(15,000)	(5,000)
Profit for the year			<u>1,012,712</u>	<u>1,002,870</u>

The following is an analysis of the Group's revenue and segment results by geographical area for the year:

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	KD	KD	KD	KD
	<u>Revenue</u>		<u>Segment results</u>	
Kuwait	4,095,661	5,315,441	1,160,677	934,339
GCC	3,564,234	3,397,947	570,483	512,087
Asia	1,010,574	322,857	206,503	48,498
Africa	1,211,720	1,055,012	218,604	202,372
	<u>9,882,189</u>	<u>10,091,257</u>	<u>2,156,267</u>	<u>1,697,296</u>

For the purpose of monitoring segment performance the Group does not allocate its total assets and liabilities between segments.

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26. FINANCIAL INSTRUMENTS

The Group in the normal course of business uses various types of financial instruments. The information on financial risks and fair value of these financial instruments is set out below:

a. Capital risk management

The Group's objective when managing capital are to safeguard the its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital structure of the Group consists of term loan, notes payable, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings.

b. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 3 to the consolidated financial statements.

c. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit policy and exposure to credit risk are monitored on an ongoing basis. The Group seeks to avoid undue concentration of risks with individuals or group of customers in specific locations or business through diversification of activities. The maximum credit risk exposure is not materially different from the carrying values in the consolidated financial statements.

d. Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in equity prices. Financial instruments, which potentially subject the group to equity price risk, consist principally of financial assets at fair value through profit or loss and available for sale financial assets. The Group manages this risk by diversifying its investments on the basis of the pre-determined asset allocations across various categories, continuous appraisal of market conditions and trends and management estimate of long and short term changes in fair value.

The following table demonstrates the sensitivity of the changes in fair value to reasonably possible changes in prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

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26 FINANCIAL INSTRUMENTS (Continued)

d. Equity price risk (Continued)

	Change in equity price 2012 KD	Effect on profit before deduction 2012 KD	Effect on other comprehensive income 2012 KD	Change in equity price 2011 KD	Effect on profit before deduction 2011 KD	Effect on other comprehensive income 2011 KD
Kuwait and others	+5%	<u>23,900</u>	<u>7,602</u>	+5%	<u>22,803</u>	<u>8,276</u>

e. Yield rate risk

Yield rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market yield rates. Term loan and notes payable at fixed yield rates expose the Group to fair value yield rate risk.

f. Foreign currency risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group incurs foreign currency risk on sales, purchases and certain investments that are denominated in a currency other than Kuwaiti Dinars. As at the financial position date the group had the following net long exposure denominated in foreign currencies:

	2012 KD	2011 KD
US Dollar	363,488	1,438,409
Saudi Arabian Riyals	42,157	270,920
UAE Dirhams	64,697	105,013
Omani Riyal	32,496	-
Qatari Riyals	-	241
Euro	564,064	970,936

g. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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26. FINANCIAL INSTRUMENTS (Continued)

g. Liquidity risk (Continued)

The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 December 2012	Less than 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Total
	KD	KD	KD	KD	KD	
Term loan	30,000	-	170,000	200,000	477,941	877,941
Trade and other payables	882,969	491,657	182,045	-	-	1,556,671
Notes payable	-	204,765	-	-	-	204,765
At 31 December 2011	Less than 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5 years	Total
	KD	KD	KD	KD	KD	KD
Term loan	30,000	-	161,032	265,429	57,941	514,402
Trade and other payables	227,159	955,859	-	-	-	1,183,018
Notes payable	471,738	629,902	198,028	-	-	1,299,668

h. Fair value of financial instruments

a) Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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26. FINANCIAL INSTRUMENTS (Continued)

h. Fair value of financial instruments (Continued)

a) Fair value measurements recognised in the consolidated statement of financial position

31 December 2012	Level 1	Level 2	Total
	KD	KD	KD
Financial assets at fair value through profit or loss			
Local quoted securities	379,497	-	379,497
Local funds	-	98,500	98,500
Total	379,497	98,500	477,997
Available-for-sale financial assets			
Quoted securities	151,898	-	151,898
Total	151,898	-	151,898
31 December 2011	Level 1	Level 2	Total
	KD	KD	KD
Financial assets at fair value through profit or loss			
Local quoted securities	228,556	-	228,556
Local unquoted securities	-	108,000	108,000
Local funds	-	119,500	119,500
Total	228,556	227,500	456,056
Available-for-sale financial assets			
Quoted securities	165,523	-	165,523
Total	165,523	-	165,523

27. COMMITMENTS AND CONTINGENT LIABILITIES

	2012	2011
	KD	KD
Capital commitments	-	67,420
Letters of credit	909,120	905,200
Letters of guarantee	147,033	169,530
Operating lease commitments		
The minimum operating lease commitments under non-cancellable operating leases are as follows:		
	2012	2011
	KD	KD
Not later than one year	33,150	5,000
Later than one year but not later than five years	122,600	10,000

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28. ANNUAL GENERAL ASSEMBLY MEETING

The Annual General Assembly held on 17 April 2012, approved the annual audited consolidated financial statements of the Group for the year ended 31 December 2011 and approved a cash dividend nil (2010: 10 fils per share) and bonus share of 5% equivalent to 5 shares for each 100 shares (2010: 5 shares for each 100 shares) to the shareholders of record as of the date of the Annual General Assembly.

During the board meeting held on 4 March 2013, the Board of Directors have proposed a cash dividend of 10% equivalent to 10 fils per share (2011 : Nil) and bonus share nil (2011: 5 share for each 100 share).This proposal is subject to the approval of shareholders' at the Annual Assembly meeting.