

**Refrigeration Industries and Storage  
Company K.S.C. and its Subsidiary**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2011**



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**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
REFRIGERATION INDUSTRIES AND STORAGE COMPANY K.S.C.**

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Refrigeration Industries and Storage Company K.S.C. (the "Parent Company") and its subsidiary (collectively, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, 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 management of the Parent Company 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 auditor considers 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.


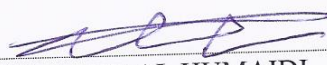
*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
REFRIGERATION INDUSTRIES AND STORAGE COMPANY K.S.C. (continued)**

**Report on Other Legal and Regulatory Requirements**

Furthermore, 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 of 1960, as amended, and by the Parent Company's Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, nor of the Parent Company's Articles of Association, as amended, have occurred during the year ended 31 December 2011 that might have had a material effect on the business of the Parent Company or on its financial position.

  
WALEED A. AL OSAIMI  
LICENCE NO. 68 A  
OF ERNST & YOUNG  
DR. SAUD AL HUMAIDI  
LICENCE NO. 51 A  
DR. SAUD AL -HUMAIDI & PARTNERS  
MEMBER OF BAKER TILLY  
INTERNATIONAL

19 March 2012

Kuwait



# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 KD	2010 KD
Revenues	5	12,305,402	12,844,794
Cost of revenues		(11,846,986)	(10,028,521)
<b>Gross profit</b>		<b>458,416</b>	<b>2,816,273</b>
Write-back of provision for old and obsolete inventories, net	12	74,447	297,428
Write-back of impairment against receivables	13	-	24,064
Write-off of inventories	12	(581,841)	-
Impairment of receivables	13	(1,041,980)	-
Administrative expenses	7	(1,570,527)	(1,756,268)
Investment loss	6	(516,184)	(86,818)
Interest income		7,109	20,950
Loss on sale of property, plant and equipment		(452,556)	(209,082)
Foreign exchange gain/(loss)		64,966	(8,598)
<b>(LOSS)/PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES ("KFAS"), NATIONAL LABOUR SUPPORT TAX ("NLST"), ZAKAT AND DIRECTORS' REMUNERATION</b>		<b>(3,558,150)</b>	<b>1,097,949</b>
Contribution to KFAS		-	(4,609)
NLST		-	(11,521)
Zakat		-	(4,608)
Directors' remuneration		-	(10,000)
<b>(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT COMPANY</b>		<b>(3,558,150)</b>	<b>1,067,211</b>
<b>BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO THE PARENT COMPANY</b>	8	<b>(40.2) fils</b>	<b>12.1 fils</b>

The attached notes 1 to 27 form part of these consolidated financial statements.



Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011 KD	2010 KD
<b>(Loss)/profit for the year</b>	<b>(3,558,150)</b>	<b>1,067,211</b>
<b>Other comprehensive income</b>		
Change in fair values of financial assets available-for-sale	-	(7,432)
Realised gain on sale of financial assets available-for-sale	-	(29,494)
(Unrealised gain)/impairment loss on financial assets available-for-sale transferred to the consolidated income statement	<b>(25,455)</b>	<b>55,881</b>
<b>Other comprehensive (loss)/income for the year</b>	<b>(25,455)</b>	<b>18,955</b>
<b>Total comprehensive (loss)/income for the year attributable to the Parent Company</b>	<b>(3,583,605)</b>	<b>1,086,166</b>


The attached notes 1 to 27 form part of these consolidated financial statements.

# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 KD	2010 KD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	7,468,078	7,585,807
Intangible assets	10	438,708	658,062
Financial assets available-for-sale	11	-	459,729
		<u>7,906,786</u>	<u>8,703,598</u>
<b>Current assets</b>			
Inventories	12	6,102,119	5,883,147
Accounts receivable and other assets	13	2,575,515	4,220,004
Financial assets at fair value through income statement	14	-	128,931
Bank balances and cash	15	2,813,629	3,812,966
		<u>11,491,263</u>	<u>14,045,048</u>
		<u>19,398,049</u>	<u>22,748,646</u>
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	16	8,939,813	8,514,108
Statutory reserve	18	4,824,285	4,824,285
Voluntary reserve	18	4,728,317	4,728,317
Treasury shares	19	(309,013)	(309,013)
Treasury shares reserve	19	146,899	146,899
Cumulative changes in fair value reserve		-	25,455
(Accumulated losses)/retained earnings		(3,463,197)	942,163
		<u>14,867,104</u>	<u>18,872,214</u>
<b>Total equity</b>			
<b>Non-current liabilities</b>			
Employees' end of service benefits	20	637,537	697,901
<b>Current liabilities</b>			
Accounts payable and accruals	21	3,893,408	3,178,531
		<u>4,530,945</u>	<u>3,876,432</u>
<b>Total liabilities</b>			
		<u>19,398,049</u>	<u>22,748,646</u>
<b>TOTAL EQUITY AND LIABILITIES</b>			

  
 Saleh Al Meklef  
 Chairman and Managing Director

# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Share capital KD	Statutory reserve KD	Voluntary reserve KD	Treasury shares KD	Cumulative changes in fair value reserve KD	(Accumulated losses)/ retained earnings KD	Total equity KD
As at 1 January 2011	8,514,108	4,824,285	4,728,317	(309,013)	146,899	942,163	18,872,214
Loss for the year	-	-	-	-	-	(3,558,150)	(3,558,150)
Transfer to consolidated income statement	-	-	-	-	(25,455)	-	(25,455)
Total comprehensive loss for the year	-	-	-	-	(25,455)	(3,558,150)	(3,583,605)
Issue of bonus shares (Note 17)	425,705	-	-	-	-	(425,705)	-
Dividends (Note 17)	-	-	-	-	-	(421,505)	(421,505)
<b>At 31 December 2011</b>	<b>8,939,813</b>	<b>4,824,285</b>	<b>4,728,317</b>	<b>(309,013)</b>	<b>146,899</b>	<b>(3,463,197)</b>	<b>14,867,104</b>
As at 1 January 2010	8,514,108	4,824,285	4,728,317	(309,013)	146,899	(125,048)	17,786,048
Profit for the year	-	-	-	-	-	1,067,211	1,067,211
Other comprehensive income	-	-	-	-	18,955	-	18,955
Total comprehensive income for the year	-	-	-	-	18,955	1,067,211	1,086,166
<b>At 31 December 2010</b>	<b>8,514,108</b>	<b>4,824,285</b>	<b>4,728,317</b>	<b>(309,013)</b>	<b>146,899</b>	<b>942,163</b>	<b>18,872,214</b>

The attached notes 1 to 27 form part of these consolidated financial statements.



Refrigeration Industries and Storage Company K.S.C. and its Subsidiary  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
Year ended 31 December 2011

	Notes	2011 KD	2010 KD
<b>OPERATING ACTIVITIES</b>			
(Loss)/profit for the year		(3,558,150)	1,067,211
Adjustments for:			
Depreciation	9	378,704	743,230
Impairment loss on property, plant and equipment	9	-	60,376
Amortization	10	219,354	219,354
Provision for employees' end of service benefits	20	92,174	205,724
Write-back of provision for old and obsolete inventories	12	(426,732)	(297,428)
Write-back of impairment against receivables	13	-	(24,064)
Write-off of inventories	12	581,841	-
Provision for old and obsolete inventories	12	352,285	-
Impairment of receivables	13	1,041,980	-
Realised (gain)/loss on financial assets at fair value through income statement	6	(4,496)	507
Realised gain on financial assets available-for-sale	6	(31,475)	(29,494)
Unrealised loss on financial assets at fair value through income statement	6	117,881	59,924
Impairment loss on financial assets available-for-sale	6	434,274	55,881
Loss on sale of property, plant and equipment		452,556	209,082
Interest income		(7,109)	(20,950)
Foreign exchange (gain)/loss		(64,966)	8,598
		(421,879)	2,257,951
Working capital changes:			
Inventories		(726,366)	(670,376)
Accounts receivable and other assets		602,509	(489,316)
Accounts payable and accruals		729,583	(1,273,248)
Cash flows from/(used in) operating activities		183,847	(174,989)
Employees' end of service benefits paid	20	(152,538)	(212,237)
Net cash flows from/(used in) operating activities		31,309	(387,226)
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	9	(1,584,531)	(118,598)
Proceeds from sale of property, plant and equipment		871,000	318,051
Proceeds from sale of financial assets available-for-sale		31,475	108,745
Proceeds from sale of financial assets at fair value through income statement		15,546	6,015
Interest received		7,109	20,950
Net cash flows (used in)/from investing activities		(659,401)	335,163
<b>FINANCING ACTIVITIES</b>			
Dividend paid		(396,375)	(3,419)
Net cash flows used in financing activities		(396,375)	(3,419)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(1,024,467)	(55,482)
Cash and cash equivalents at 1 January		3,509,427	3,564,909
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	15	2,484,960	3,509,427

The attached notes 1 to 27 form part of these consolidated financial statements.

# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 1 CORPORATE INFORMATION

The consolidated financial statements of Refrigeration Industries and Storage Company K.S.C. (the "Parent Company") and its subsidiary (collectively, the "Group") for the year ended 31 December 2011 were authorised for issue by the Parent Company's Board of Directors on 19 March 2012. The Annual General Meeting of the shareholders have the power to amend these consolidated financial statements after issuance.

The Parent Company is a Kuwaiti shareholding company incorporated on 8 March 1973 in accordance with the Kuwait Commercial Companies Law, and is engaged in owning and leasing of cold storage warehouses, manufacturing, installing and maintaining air conditioning systems, and investing surplus funds through investment portfolio managed by specialised investment management companies. The Parent Company's shares were listed on Kuwait Stock Exchange on 29 September 1984 and its registered office is P.O. Box 22261, Safat 13083, State of Kuwait.

### 2.1 BASIS OF PREPARATION

#### Statement of compliance

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

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets at fair value through income statement and financial assets available-for-sale that have been measured at fair value. The consolidated financial statements are presented in Kuwaiti Dinars (KD) which is also the Parent Company's functional and presentation currency.

### 2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as at 31 December 2011.

Subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date when such control ceases. The financial statement of the subsidiary is prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in the consolidated income statement
- Reclassifies the Parent Company's share of components previously recognised in other comprehensive income to consolidated income statement or retained earnings, as appropriate.

Details of the subsidiary is as follows:

Name of subsidiary	Country of incorporation	Principal activities	Equity interest %	
			2011	2010
Coollex General Trading and Contracting Company W.L.L*	Kuwait	Dormant	99%	99%

\*An insignificant holding of units are held by nominees who have confirmed in writing that the Parent Company has the beneficial ownership interest in the subsidiary through a letter of assignment.



# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

#### **Foreign currency translation**

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

#### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

#### *Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

#### *Revenue from construction contracts*

Revenue from construction contracts is recognised as soon as it can be estimated reliably. The Group uses the percentage of completion method to determine the appropriate amount to be recognised in a given period. The stage of completion is measured by reference to cost incurred to date to estimated total cost for each contract. The full amount of the anticipated loss, including any loss related to future work on the contract, is recognised in the period in which the loss is identified. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the costs incurred are eligible to be recovered.

#### *Rendering of services*

Maintenance revenue is recognised upon performance of services.

#### *Storage revenues*

Storage revenues from operating leases are recognized on straight-line basis over the lease term.

#### *Dividends*

Revenue is recognised when the Group's right to receive the payment is established.

#### *Interest income*

Interest income is recorded using the effective interest rate (EIR) method, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or a shorter period where appropriate, to the net carrying amount of the financial asset.

#### **Taxation**

##### *National Labour Support Tax (NLST)*

The Parent Company calculates NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year.

##### *Kuwait Foundation for the Advancement of Sciences (KFAS)*

The Parent Company calculates the contribution to KFAS at 1% of profit in accordance with the modified calculation based on the Foundation's Board of Directors resolution, which states that the income from associates and subsidiaries, Board of Directors' remuneration and transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

#### *Zakat*

Zakat is calculated at 1% of the profit attributable to the Parent Company in accordance with the Ministry of Finance resolution No. 58/2007.



**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

- |   |               |
|---|---------------|
| • Buildings                             | 20 years      |
| • Machinery, plant, tools and equipment | 5 to 15 years |
| • Generators and electrical appliances  | 15 years      |
| • Motor vehicles                        | 10 years      |
| • Furniture and office equipment        | 5 years       |

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

*Group as a lessee*

Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

*Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible assets.



## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (continued)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

A summary of the policies applied to the Group's intangible assets is as follows:

	Useful life	Internally generated or acquired
<i>Land lease rights from government</i>	Finite – 5 years	Acquired

### Financial instruments – initial recognition and subsequent measurement

#### (i) Financial assets

##### Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through income statement, loans and receivables, held-to-maturity investments or financial assets available-for-sale, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through income statement.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include bank balances and cash, financial assets at fair value through income statement, financial assets available-for-sale, accounts receivable and other assets. At 31 December 2011, the Group did not have held-to-maturity investments.

##### Subsequent measurement

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

##### Financial assets at fair value through income statement

Financial assets at fair value through income statement includes financial assets held for trading and financial assets designated upon initial recognition at fair value through income statement. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets are designated at fair value through income statement if they are managed, and their performance is evaluated on reliable fair value basis in accordance with documented investment strategy. Financial assets at fair value through income statement are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated income statement.

The Group has not designated any financial assets upon initial recognition as at fair value through income statement.

The Group evaluates its financial assets at fair value through income statement (held for trading), to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity is permitted depending on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through income statement using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group does not have any loans receivable. Receivables include trade accounts receivable and other receivables.



**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments – initial recognition and subsequent measurement (continued)**

**(i) Financial assets (continued)**

***Subsequent measurement (continued)***

***Loans and receivables (continued)***

Trade accounts receivable are stated at original amount less a provision for any uncollectible amount. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

***Financial assets available-for-sale***

Financial assets classified as available-for-sale are those equity investments, which are neither classified as designated financial assets at fair value through income statement nor held-for-trading. After initial measurement, financial assets available-for-sale are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in cumulative changes in fair value reserve until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss is recognised in the consolidated income statement in investment income/loss and removed from the cumulative changes in fair value reserve. Financial assets whose fair value cannot be reliably measured are stated as cost less impairment losses, if any.

The Group evaluates whether the ability and intention to sell its financial assets available-for-sale in the near term is still appropriate. When, in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity.

***Derecognition***

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,
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

**(ii) Impairment of financial assets**

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment is determined as follows:

- for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate;
- for assets carried at fair value, impairment is the difference between cost and fair value; and
- for assets carried at cost, impairment is the difference between actual cost and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.



**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments – initial recognition and subsequent measurement (continued)**

**(ii) Impairment of financial assets (continued)**

*Financial assets available-for-sale*

For financial assets available-for-sale, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement - is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

**(iii) Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through income statement and loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transactions costs.

The Group's financial liabilities include accounts payable. At 31 December 2011, the Group did not have any financial liabilities at fair value through income statement.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*Accounts payable*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

*Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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. The difference in the respective carrying amounts is recognised in the consolidated income statement.

**(iv) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**(v) Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices (bid price), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other acceptable valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 27.



# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Inventories**

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials and spare parts	- Purchase cost on a moving average basis.
Work in progress and finished goods	- Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

#### **Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the consolidated income statement.

#### **Intangible assets**

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

#### **Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances, and cash on hand net of restricted bank balances.

#### **Treasury shares**

Treasury shares consist of the Parent Company's own issued shares that have been reacquired by the Group and not yet reissued or cancelled. The treasury shares are accounted for using the cost method. Under this method, the weighted average cost of the shares reacquired is charged to a contra account in equity. When the treasury shares are sold, gains are credited to a separate account in equity (the "treasury share reserve"), which is not distributable. Any realised 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 then to the voluntary reserve and statutory reserve.

Gains realised subsequently on the sale of treasury shares are first used to offset any previously recorded losses in the order of reserves, retained earnings and the 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.



## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### Employees' end of service benefits

The Group provides end of service benefits to its employees under the Kuwait Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its Kuwaiti employees, the Company also makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries.

## 2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

### New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as of 1 January 2011:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011
- IAS 32 *Financial Instruments: Presentation (amendment)* effective 1 February 2010
- Improvements to IFRSs (May 2010).

The adoption of the standards is described below:

#### IAS 24 *Related Party Transactions (Amendment)*

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

#### IAS 32 *Financial Instruments: Presentation (Amendment)*

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

#### Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

**IFRS 7 *Financial Instruments - Disclosures*:** The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

**IAS 1 *Presentation of Financial Statements*:** The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in the consolidated statement of comprehensive income.



## 2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

### New and amended standards and interpretations (continued)

#### *Improvements to IFRSs (continued)*

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))

IAS 27 *Consolidated and Separate Financial Statements*

IAS 34 *Interim Financial Statements*.

## 3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

#### *Classification of investments*

Management decides on acquisition of an investment whether it should be classified as at fair value through income statement or as available-for-sale.

The Group classifies financial assets at fair value through income statement if they are acquired primarily for the purpose of short term profit making.

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

All other financial assets are classified as available-for-sale.

### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

#### *Fair value of financial instruments*

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### *Impairment of financial assets available-for-sale*

The Group treats financial assets available-for-sale as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.



**3 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

*Impairment of accounts receivable*

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. The estimation is performed on an individual basis for amounts which are past due, and a provision applied according to the length of time past due, based on historical recovery rates.

*Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where management believes the useful lives differ from previous estimates.

*Impairment of inventories*

Inventories are valued at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence.

**4 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

*IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (“OCI”)*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or ‘recycled’) to consolidated income statement at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

*IAS 27 Separate Financial Statements (as revised in 2011)*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 3 Business Combinations:* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

The consolidated financial statements do not include NCI as at the reporting date as the subsidiary is wholly owned by the Parent Company (Note 2.2). The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011.

*IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's consolidated 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 continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.



# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 4 STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

#### IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### IFRS 10 *Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation - Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

#### IFRS 12 *Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

#### IFRS 13 *Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

### 5 REVENUES

	2011 KD	2010 KD
Contract	5,831,624	6,351,622
Storage	2,212,191	2,925,550
Manufacturing	3,281,903	2,415,832
Maintenance and spare parts	979,684	1,151,790
	<u>12,305,402</u>	<u>12,844,794</u>

### 6 INVESTMENT (LOSS)/GAIN

	2011 KD	2010 KD
Unrealised loss on financial assets at fair value through income statement	(117,881)	(59,924)
Realised gain/(loss) on financial assets at fair value through income statement	4,496	(507)
Impairment loss on financial assets available-for-sale (Note 11)	(434,274)	(55,881)
Realised gain on financial assets available-for-sale	31,475	29,494
	<u>(516,184)</u>	<u>(86,818)</u>

# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 7 ADMINISTRATIVE EXPENSES

	2011 KD	2010 KD
Staff costs	830,362	727,184
Depreciation (Note 9)	129,954	160,317
Amortization (Note 10)	219,354	219,354
Other operating expenses	403,480	621,539
	<u>1,583,150</u>	<u>1,728,394</u>

### 8 BASIC AND DILUTED (LOSS)/EARNINGS PER SHARE

Basic and diluted (loss)/earnings per share is computed by dividing the (loss)/profit for the year attributable to the Parent Company by the weighted average number of shares outstanding during the year less weighted average number of treasury shares, as follows:

	2011	2010
Net (loss)/profit for the year attributable to the Parent Company (KD)	<u>(3,558,150)</u>	<u>1,067,211</u>
Weighted average number of shares outstanding	89,398,135	89,398,135
Weighted average number of treasury shares (Note 19)	<u>(882,000)</u>	<u>(882,000)</u>
Weighted average number of shares	<u>88,516,135</u>	<u>88,516,135</u>
Basic and diluted (loss)/earnings per share attributable to the Parent Company	<u>(40.2) fils</u>	<u>12.1 fils</u>

The earnings per share for the comparative year have been restated for the effect of bonus shares issued in the current year (Note 17).



# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 9 PROPERTY, PLANT AND EQUIPMENT

	Land KD	Buildings KD	Machinery and plant KD	Tools and equipment KD	Generators and electrical appliances KD	Furniture and office equipment KD	Motor vehicles KD	Capital work in-progress KD	Total KD
Cost:									
At 1 January 2011	2,751,660	9,748,298	1,820,580	719,613	1,992,096	1,451,219	3,906,149	8,250	22,397,865
Additions	-	6,056	15,368	9,232	-	9,305	20,400	1,524,170	1,584,531
Disposals	-	-	-	-	-	-	(2,674,342)	-	(2,674,342)
At 31 December 2011	2,751,660	9,754,354	1,835,948	728,845	1,992,096	1,460,524	1,252,207	1,532,420	21,308,054
Depreciation:									
At 1 January 2011	-	7,428,778	1,359,216	699,710	1,741,846	1,282,370	2,300,138	-	14,812,058
Charge for the year	-	187,535	51,683	9,800	11,138	41,453	77,095	-	378,704
Disposals	-	-	-	-	-	-	(1,350,786)	-	(1,350,786)
At 31 December 2011	-	7,616,313	1,410,899	709,510	1,752,984	1,323,823	1,026,447	-	13,839,976
Net book value:									
At 31 December 2011	2,751,660	2,138,041	425,049	19,335	239,112	136,701	225,760	1,532,420	7,468,078

# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 9 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land KD	Buildings KD	Machinery and plant KD	Tools and equipment KD	Generators and electrical appliances KD	Furniture and office equipment KD	Motor vehicles KD	Capital work in-progress KD	Total KD
Cost:									
At 1 January 2010	2,751,660	9,727,482	1,820,580	705,463	1,992,096	1,394,353	5,175,195	16,588	23,583,417
Additions	-	9,002	-	13,980	-	56,866	30,500	8,250	118,598
Transfers	-	11,814	-	170	-	-	-	(11,984)	-
Disposals	-	-	-	-	-	-	(1,299,546)	(4,604)	(1,304,150)
At 31 December 2010	2,751,660	9,748,298	1,820,580	719,613	1,992,096	1,451,219	3,906,149	8,250	22,397,865
Depreciation:									
At 1 January 2010	-	7,234,275	1,300,438	688,691	1,726,300	1,215,921	2,619,844	-	14,785,469
Charge for the year	-	194,503	58,778	11,019	15,546	66,449	396,935	-	743,230
Impairment	-	-	-	-	-	-	60,376	-	60,376
Disposals	-	-	-	-	-	-	(777,017)	-	(777,017)
At 31 December 2010	-	7,428,778	1,359,216	699,710	1,741,846	1,282,370	2,300,138	-	14,812,058
Net book value:									
At 31 December 2010	2,751,660	2,319,520	461,364	19,903	250,250	168,849	1,606,011	8,250	7,585,807

The depreciation charge has been allocated in the consolidated income statement as follows:

	2011 KD	2010 KD
Cost of revenues	248,750	582,913
Administrative expenses (Note 7)	129,954	160,317
	378,704	743,230

In 2010, an impairment loss of KD 60,376 was recognised representing the write-down of certain vehicles to their recoverable amount. This was included in 'Cost of revenues'.



# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 10 INTANGIBLE ASSETS

	2011 KD	2010 KD
Cost:		
At 1 January and 31 December	1,096,770	1,096,770
Amortisation:		
At 1 January	(438,708)	(219,354)
Charge for the year (Note 7)	(219,354)	(219,354)
At 31 December	(658,062)	(438,708)
Net carrying amount:		
At 31 December	438,708	658,062

### 11 FINANCIAL ASSETS AVAILABLE-FOR-SALE

	2011 KD	2010 KD
Unquoted equity security	-	10,741
Managed equity funds	-	448,988
	-	459,729

Management has assessed that full impairment should be recorded against these investments and accordingly, an impairment loss of KD 434,274 (2010: KD 55,881) (Note 6) has been recorded in the consolidated income statement.

### 12 INVENTORIES

	2011 KD	2010 KD
Raw materials	5,045,782	5,172,685
Work in progress	992,207	630,814
Finished goods	430,247	564,417
Goods in transit	254,305	106,617
Spare parts	353,453	456,936
	7,075,994	6,931,469
Provision for old and obsolete inventories	(973,875)	(1,048,322)
	6,102,119	5,883,147

During the current year, raw materials inventories with a carrying value of KD 581,841 (2010: Nil) were written off in the consolidated income statement.

The movement in the provision for old and obsolete inventories that are determined to be impaired is as follows:

	2011 KD	2010 KD
At 1 January	1,048,322	1,345,750
Charge for the year	352,285	-
Write back during the year	(426,732)	(297,428)
At 31 December	973,875	1,048,322

# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 13 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2011 KD	2010 KD
Trade accounts receivable	3,742,482	3,944,635
Less: provision for doubtful debts	(2,910,408)	(1,868,428)
	<u>832,074</u>	<u>2,076,207</u>
Unbilled revenue, net	304,733	1,688,304
Advance to suppliers	1,311,505	319,340
Prepaid expenses	44,856	80,258
Refundable deposits	12,990	21,268
Other receivable	69,357	34,627
	<u>2,575,515</u>	<u>4,220,004</u>

Trade accounts receivables are non-interest bearing and are generally on 30 to 90 day terms.

At 31 December 2011, trade accounts receivable of an initial value of KD 2,910,408 (2010: KD 1,868,428) were impaired and fully provided for. The movement in the provision for doubtful trade accounts receivable that are individually determined to be impaired is as follows:

	2011 KD	2010 KD
At 1 January	1,868,428	1,933,532
Charge for the year	1,041,980	-
Utilised	-	(41,040)
Unused amount reversed	-	(24,064)
At 31 December	<u>2,910,408</u>	<u>1,868,428</u>

As at 31 December, the ageing analysis of trade accounts receivables is as follows:

	Total KD	Neither past due nor impaired KD	Past due but not impaired				Over 1 year KD
			< 60 days KD	60- 90 days KD	90-180 days KD	180-360 days KD	
2011	<u>832,074</u>	<u>234,976</u>	<u>151,552</u>	<u>81,699</u>	<u>133,316</u>	<u>127,135</u>	<u>103,396</u>
2010	<u>2,076,207</u>	<u>246,747</u>	<u>131,265</u>	<u>159,275</u>	<u>441,420</u>	<u>126,766</u>	<u>970,734</u>

### 14 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	2011 KD	2010 KD
<b>Held for trading</b>		
Unquoted money market fund	<u>-</u>	<u>128,931</u>

Management has assessed that the fair value of the fund is Nil and accordingly recorded an unrealised loss of KD 117,881 (2010: Nil) (Note 6) in the consolidated income statement.



# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

### 15 CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following amounts:

	2011 KD	2010 KD
Cash in hand	1,000	30
Bank balances	2,812,629	3,812,936
	<u>2,813,629</u>	<u>3,812,966</u>
Less: restricted bank balance	(328,669)	(303,539)
	<u>2,484,960</u>	<u>3,509,427</u>

Restricted bank balance represents unclaimed dividend payable declared in prior years (Note 21).

### 16 SHARE CAPITAL

	2011 KD	2010 KD
Authorised, issued and fully paid up 89,398,130 (2010: 85,141,078) shares of 100 fils each	<u>8,939,813</u>	<u>8,514,108</u>

### 17 DIVIDENDS

The Annual General Assembly of the shareholders held on 22 May 2011, approved the payment of cash dividend of 5 fils per share (2009: Nil) on outstanding shares excluding treasury shares amounting to KD 421,505 and bonus shares amounting to KD 425,705 (2009: Nil). The dividend was payable to the shareholders registered in the Parent Company's records as of the date of the Annual General Assembly meeting.

An Extraordinary General Meeting of the shareholders was held on 22 May 2011 to approve the increase in authorised share capital by 5% due to bonus shares declared of 4,257,054 shares.

### 18 RESERVES

#### Statutory reserve

In accordance with the Commercial Companies Law and the Parent Company's Articles of Association, the annual transfer to statutory reserve of 10% of the profit for the year has been discontinued as the reserve exceeds 50% of 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.

#### Voluntary reserve

In accordance with the Parent Company's Articles of Association 10% of the profit for the year before contribution to KFAS, Zakat and Directors' remuneration is required to be transferred to the voluntary reserve based on the recommendation of the Board of Directors. The Annual General Assembly of shareholders may upon a recommendation by the Board of Directors increase the percentage as it deems appropriate, and may resolve to discontinue such annual transfers. The Annual General Assembly of shareholders has decided to discontinue such transfer. There are no restrictions on distributions from voluntary reserve.

# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

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At 31 December 2011

### 19 TREASURY SHARES AND TREASURY SHARE RESERVE

	2011	2010
Number of own shares	882,000	882,000
Percentage of issued shares	1%	1%
Cost (KD)	309,013	309,013
Market value (KD)	139,356	201,096

#### *Treasury share reserve*

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

### 20 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the consolidated statement of financial position are as follows:

	2011 KD	2010 KD
At 1 January	697,901	704,414
Provided during the year	92,174	205,724
Paid during the year	(152,538)	(212,237)
At 31 December	<u>637,537</u>	<u>697,901</u>

### 21 ACCOUNTS PAYABLE AND ACCRUALS

	2011 KD	2010 KD
Trade accounts payables	908,459	949,653
Advances from customers	189,557	149,998
Billings in excess of work in progress	1,569,928	1,467,833
Accrued expenses	626,785	145,328
Unclaimed dividend payable	328,669	303,539
Provision for staff leave	266,786	150,596
Other payables	3,224	11,584
	<u>3,893,408</u>	<u>3,178,531</u>

### 22 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

#### **Key management compensation**

	2011 KD	2010 KD
Salaries and other short-term benefits	102,978	120,000
Termination benefits	8,808	17,000
Directors' remuneration	-	10,000
	<u>111,786</u>	<u>147,000</u>



# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

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### 23 COMMITMENTS AND CONTINGENCIES

#### Operating lease commitments - Group as lessee

The Group has entered into commercial leases on certain buildings and land. These leases have an average life of between one and five years. There are no restrictions placed upon the Group by entering into these leases.

Future minimum rentals payables under non-cancellable operating leases as at 31 December are as follows:

	2011 KD	2010 KD
Within one year	156,386	122,561
After one year but not more than five years	312,772	30,457
	<u>469,158</u>	<u>153,018</u>

#### Purchase commitments

In the ordinary course of business, the Group has credit-related commitments at the reporting date for purchase of raw materials inventory amounting to KD 1,245,143 (2010: KD 1,888,666).

#### Capital commitments

At 31 December 2011, the Group has capital commitments for the construction of a new plant for manufacturing air conditioning systems and purchase of related equipment amounting to KD 2,268,000 (2010: Nil).

#### Guarantees

At 31 December 2011, the Parent Company has provided performance bank guarantees to customers amounting to KD 2,447,237 (2010: KD 1,482,551). It is anticipated that no material liabilities will arise.

#### Legal claim contingencies

The Group is also involved in various claims and legal proceedings including employee compensation and contractor disputes based on the advice of the legal counsel. Management believes that such claims will not have a material adverse effect on the consolidated financial statements.

### 24 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on activities and services and has two reportable segments as follows:

Contracting and manufacturing division	: Consisting of manufacturing, producing, installing and repairing of central and split air conditioning units.
Storage division	: Consisting of rental of refrigeration storage, storage services for other companies and frozen transportation.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. The Group does not have any inter-segment transactions.

# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 24 SEGMENT INFORMATION (CONTINUED)

The following table presents segment revenue and results, assets and liabilities information regarding the Group's operating business segments:

<i>31 December 2011</i>	<i>Contracting and manufacturing KD</i>	<i>Storage KD</i>	<i>Unallocated KD</i>	<i>Total KD</i>
<b>Revenue</b>	<b>9,113,528</b>	<b>2,212,191</b>	<b>979,683</b>	<b>12,305,402</b>
<b>Results</b>				
Depreciation and amortisation	370,240	97,865	129,953	598,058
Impairment of financial assets available-for-sale (Note 12)	-	-	434,274	434,274
Write-off of inventories (Note 13)	581,841	-	-	581,841
Impairment of receivables (Note 14)	887,546	90,382	70,723	1,048,651
<b>Result - loss</b>	<b>(3,802,672)</b>	<b>1,537,028</b>	<b>(1,292,506)</b>	<b>(3,558,150)</b>
<b>Operating assets</b>	<b>13,384,875</b>	<b>1,406,693</b>	<b>4,606,481</b>	<b>19,398,049</b>
<b>Operating liabilities</b>	<b>4,051,628</b>	<b>1,400</b>	<b>477,917</b>	<b>4,530,945</b>
<b>Other disclosures</b>				
Capital expenditure	1,562,268	-	22,263	1,584,531
<i>31 December 2010</i>	<i>Contracting and manufacturing KD</i>	<i>Storage KD</i>	<i>Unallocated KD</i>	<i>Total KD</i>
<b>Revenue</b>	<b>8,767,454</b>	<b>2,925,551</b>	<b>1,151,789</b>	<b>12,844,794</b>
<b>Results</b>				
Depreciation and amortisation	399,529	410,494	152,561	962,584
Impairment of financial assets available-for-sale	-	-	55,881	55,881
Impairment of receivables	27,874	-	-	27,874
<b>Result - profit</b>	<b>735,196</b>	<b>245,280</b>	<b>86,735</b>	<b>1,067,211</b>
<b>Operating assets</b>	<b>15,773,676</b>	<b>2,961,580</b>	<b>4,013,390</b>	<b>22,748,646</b>
<b>Operating liabilities</b>	<b>3,335,626</b>	<b>471,411</b>	<b>69,395</b>	<b>3,876,432</b>
<b>Other disclosures</b>				
Capital expenditure	79,848	30,500	8,250	118,598

#### Geographic information

The Group operates in two geographic regions; Kuwait and Non-Kuwait. The following table shows the distribution of the Group's segment revenue and non-current assets by region:

<i>Revenue</i>	<i>2011 KD</i>	<i>2010 KD</i>
Kuwait	12,158,552	12,704,531
Non-Kuwait	146,850	140,263
	<b>12,305,402</b>	<b>12,844,794</b>



# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

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### 24 SEGMENT INFORMATION (CONTINUED)

#### Geographic information (continued)

The income information above is based on the location of the assets generating the income.

<i>Non-current assets</i>	<i>2011 KD</i>	<i>2010 KD</i>
Kuwait		
Non-Kuwait	7,906,786	8,254,610
	-	448,988
	<u>7,906,786</u>	<u>8,703,598</u>

Non-current assets for this purpose consist of property, plant and equipment, intangible assets and financial assets available-for-sale.

### 25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Group's policy is to monitor these business risks through the Group's strategic planning process. No changes were made in the risk management objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010. The Parent Company's management reviews and agrees policies for managing each of these risks which are summarised below:

#### 25.1 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. Financial assets subject to credit risk consist principally of bank balances and accounts receivable and other assets

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored. At 31 December 2011, the Group's 10 largest customers accounted for 33.8 % (2010: 16.4%) of the total trade accounts receivable.

The requirement for an impairment is analysed at each reporting date on an individual basis for major customers. Additionally, a large number of small receivable balances are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The Group does not hold collateral against the receivables. The Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several industries and operate in largely independent markets. The Group limits its credit risk with regard to bank balances by only dealing with reputable banks.

The maximum exposure to credit risk at the reporting date is as follows:

	<i>2011 KD</i>	<i>2010 KD</i>
Accounts receivable and other assets (excluding advances to suppliers and prepaid expenses)	1,219,154	3,820,406
Bank balances (excluding cash)	2,812,629	3,812,936
	<u>4,031,783</u>	<u>7,633,342</u>

The maximum credit risk exposure to a single counter party is KD 2,740,438 (2010: KD 3,266,901).

# Refrigeration Industries and Storage Company K.S.C. and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 25.1 Credit risk (continued)

##### *Risk concentration of maximum exposure to credit risk*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The Group's financial assets subject to credit risk, before taking into account any collateral held or credit enhancements, can be analysed by the following geographic regions and industry sectors:

	2011 KD	2010 KD
<i>Geographic regions</i>		
Kuwait	4,031,783	7,633,342
	2011 KD	2010 KD
<i>Industry sectors</i>		
Banks and financial institutions	2,812,629	3,820,406
Corporate	1,219,154	3,812,936
	4,031,783	7,633,342

#### 25.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group has procedures in place with the objective of minimising such risk such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet future commitments.

The Group limits its liquidity risk by ensuring funds from related parties and bank facilities are available. Trade accounts receivable are non-interest bearing and are generally on 30 to 90 day terms. Trade accounts payable are normally settled within 60 days of the date of purchase.

The liquidity profile of financial liabilities reflects the projected cash flows which includes future interest payments over the life of these financial liabilities. The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	On demand KD	Less than 3 months KD	3 to 12 months KD	Total KD
<i>31 December 2011</i>				
Account payable and other accruals	647,772	338,283	2,907,353	3,893,408
<i>31 December 2010</i>				
Account payable and other accruals	528,833	276,170	2,373,528	3,178,531



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### 25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### 25.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market prices. Market risk comprise of interest rate risk, currency risk and equity price risk.

##### 25.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk on its interest bearing assets mainly bank balances.

Based on the Group's interest bearing financial assets held at the year end, an increase in interest rate, with all other variables held constant, would not significantly impact the Group's consolidated income statement.

##### 25.3.2 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is not exposed to significant foreign currency risk as a substantial portion of the Group's operating activities, assets and liabilities are denominated in Kuwaiti Dinars.

##### 25.3.3 Equity price risk

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from changes in the fair values of quoted equity investments.

The Group is not exposed to equity price risk as it does not have any quoted equity investments.

### 26 CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the year ended 31 December 2011 and 31 December 2010.

Capital represents total equity and is measured at KD 14,867,104 as at 31 December 2011 (2010: KD 18,872,214).

### 27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which an asset, liability or financial instrument could be exchanged or settled between knowledgeable willing parties in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group 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 estimated fair values of financial assets and liabilities, except for an unquoted equity investment classified as financial assets available-for-sale (Note 11), approximated their respective net book values at the reporting date.

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**27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in an active market for identical assets and liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs that have a significant effect on the recorded fair value are not based on observable market data.

**Assets measured at fair value**

	<i>Level 1 KD</i>	<i>Level 2 KD</i>	<i>Level 3 KD</i>	<i>Total KD</i>
<b>31 December 2011</b>				
Financial assets available-for-sale	-	-	-	-
Financial assets at fair value through income statement	-	-	-	-
<b>31 December 2010</b>				
Financial assets available-for-sale	-	448,988	-	448,988
Financial assets at fair value through income statement	-	128,931	-	128,931

During the reporting period ended 31 December 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.