

Annual Report 2008 – 2009
Saudia Dairy and Foodstuff Company



King Abdul Aziz Al Saud

(May his soul rest in peace)



The Custodian of the Two Holy Mosques King Abdullah bin Abdul Aziz Al Saud



H.R.H Prince Sultan bin Abdul Aziz Al Saud

**Crown Prince, Deputy Premier, Minister of Defense
and Aviation and Inspector General.**



H.R.H Prince Naif bin Abdul Aziz Al Saud

Second Deputy Premier and Minister of Interior



Chairman's Message

M/S SADAFCO shareholders,

I am delighted to welcome you in the 11th. Annual General Meeting of the Company, and I am honored to provide you with a copy of the BOD Annual Report for the fiscal year 2008-2009.

I would like to acknowledge that the Company's continuous growth is absolutely a sign of your efforts and confidence in its brand "Saudia", which we are proud to produce and distribute throughout the Arab World.

Although the economic crisis had negative effects on many of the companies, we were not affected in SADAFCO to the extent that interrupts the production or Company's activity. The Company achieved operational profits, which are estimated by approximately SR 63.2 millions surpassing the previous year's profits by 2.1%.

In light of the Company's restructuring process, which started to show positive achievements in connection to the workforce and factories integration, we consider in our priorities product development to remain in the position of the pioneer companies and the consumers' best choice.

Last year we launched two (2) new products, multi pack instant powder milk and triangle cheese, both products proved positive market responsiveness and highly welcomed by the consumers.

It is of the Company's norms to conduct managerial meetings attended by department managers and other staff members in order to develop future plans and budgets so as to keep the Company on top rank amongst its competitors.

As we are the Company's BOD, we exert continuous efforts to achieve our strategy and execute plans that will be directed towards our business sectors in the Kingdom and Gulf Countries and we shall build new markets through expanding our export policies regionally and internationally.

God Bless!

Hamad S. Al Ahmed

Chairman



CEO Message

Was the last fiscal year a challenging one for everybody?

Yes, I think everyone agrees to the prevalence of big challenges, including SADAFCO. Such challenges were characterized by the company's reorganizational process and definitely things were not very easy with the hikes of raw material prices, the supplies' relatively short inventory and the global fiscal crisis.

However, Sadafco was able to show sturdiness and stability in the market, thanks to the strength of its powerful brand name "Saudia". This was achievable through improving the indicators of consumers' knowledge, awareness & usage by 11% and 5% respectively compared to last year's. Such improvement in the outcome was an inevitable result of implementing successful marketing strategies and programs for liaising with consumers and clients.

Moreover, we have tightened belts, became more efficient and able to cut costs and adjust pricing levels to become appropriate to markets. With the unlimited support of our employees and clients, we continued our efforts to improve performance and set systems and standards that ensure good qualitative and quantitative productivity, the results of which will be realized at the end of the new fiscal year.

Now that we have an integral and viable organization structure, we will focus our efforts on enhancing the position of our brand, which we have set last year in the Kingdom's markets. Following that we will develop our businesses in the Gulf markets. We will achieve that through offers and proposals of new products.

Concerning the latter we have successfully introduced new offers during the last fiscal year, such as:

- Ketchup, has achieved a market share of 10% during the first year of its launch, no similar achievement has been experienced in even larger global companies.
- Cheese triangles, have been successfully launched at the end of December 2008 and was able to achieve a market share of 3% in two months only.
- Milk powder, has been successfully launched in February 2009 (two sizes 900 and 1800 grams).

For the upcoming year we have exciting plans in place to continue the innovation process and enrich the range of offers under the "Saudia" brand, thereby fulfilling the need of our loyal customers and consumers.

We are very thankful to our consumers who have given us their confidence in our branded propositions and thereby stimulate us to continue to positively surprise them with new quality additions in the future. Similarly we enjoy all the support provided by all specially shareholders, the BOD members and last but not least all our employees in SADAFCO world.

CEO
Wout Matthijs





Company Departments

The Company

Accounting and Finance

Sales and Marketing

Production and Manufacturing

Supply Chain and Transportation

HR and Saudization





Brief about the company:

SADAFECO was founded in 1976 and commenced production in 1977 in Jeddah. Over the past years the company went through various changes to support the development strategy and achieve its objectives through, producing long-life milk, ice cream, breakfast cream and tomato paste.

Furthermore, SADAFECO launched new products in the market such as powder milk, cheese triangles and ketchup aided by the brand "Saudia", which SADAFECO is building to become the "brand of choice", focusing on the company's mission " to develop,

produce and market a range of nutritious food propositions for consumers of all age groups and create maximum shareholder value through team work", SADAFECO has gained the confidence of consumers of all ages and nationalities through its deep-rooted history, "Saudia" brand and price competitiveness.







FINANCE & ACCOUNTS





Financial Results:

Financial results for the fiscal year ended 31.03.2009.

For the fiscal year ended 31/03/2009, the Company achieved SR 28.3 million as net profit compared with a net profit of SR 57.2 million for the last year. The Company also achieved operational profits for the same period amounting to SR 63.2 million compared to SR 61.9 million for last year. The Company incurred non-operational losses in

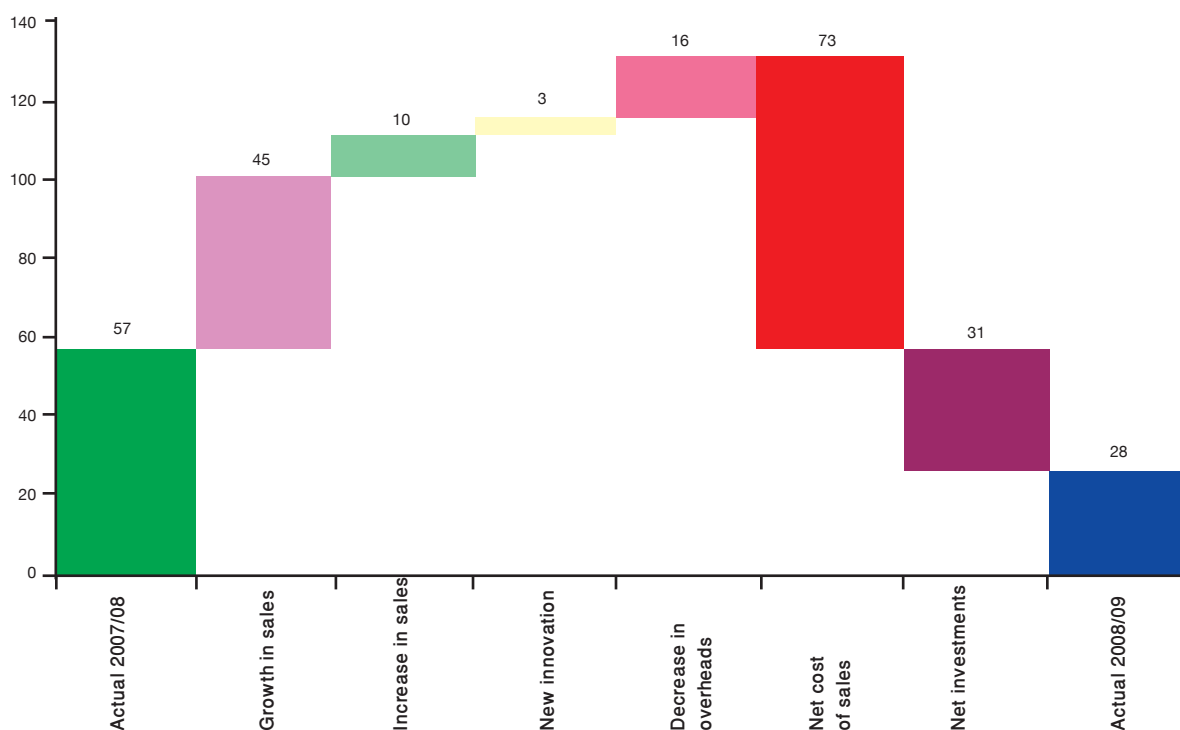
the fiscal year ended 31/03/2009 as a result of the decline in the Market Fair Value in investments.



The following tables show comparative financial results for the fiscal year ended 31/03/2009 with the results of the same period last year.

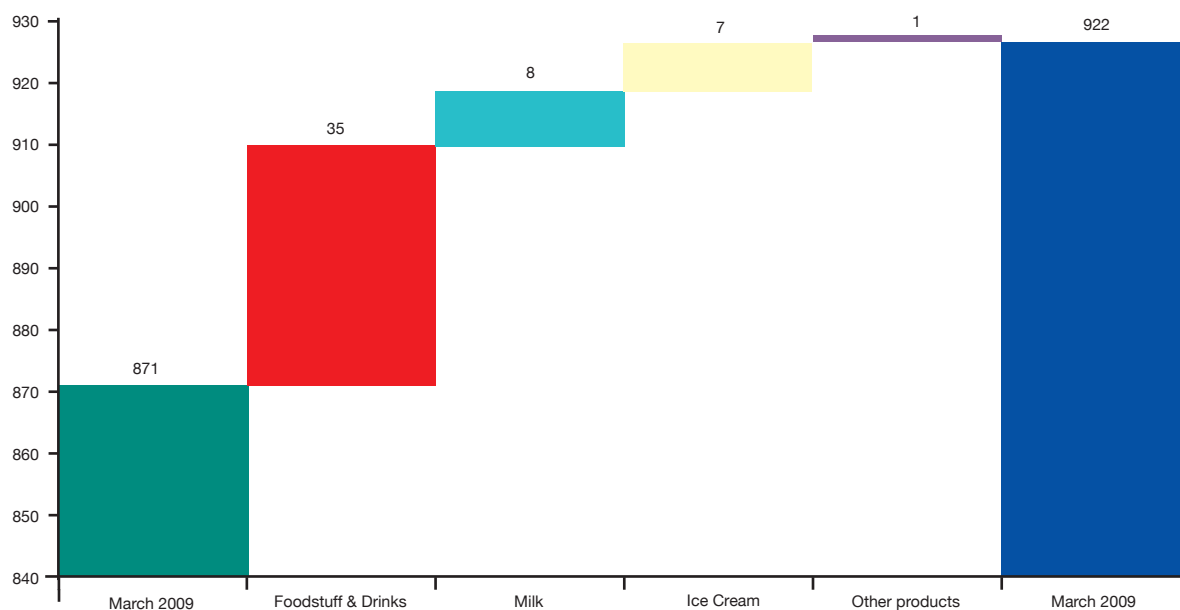
1. Financial results for the year 2008/2009 compared to last year:

(Amounts in million S.R)	March 2009	March 2008	variation	% of variation
Net sales	922	871	51	5.9%
Cost of sales	(659)	(593)	(66)	-11.10%
Gross profit	263	278	(15)	-5.4%
Selling & Distribution	(155)	(165)	10	6%
General & Admin.	(45)	(52)	7	13.5%
Other income (net)	(27)	4	(31)	
Zakat	(8)	(8)	0	0%
Net profit	28	57	(29)	-51%



2. Sales by products for the year 2008/2009 compared to last year:

Amount in millions	March 2009	March 2008	Change + or -	% change
Milk	638	630	8	1%
Foodstuff & Drinks	203	168	35	21%
Ice Cream	77	70	7	10%
Others	4	3	1	33%
Total	922	871	51	6%

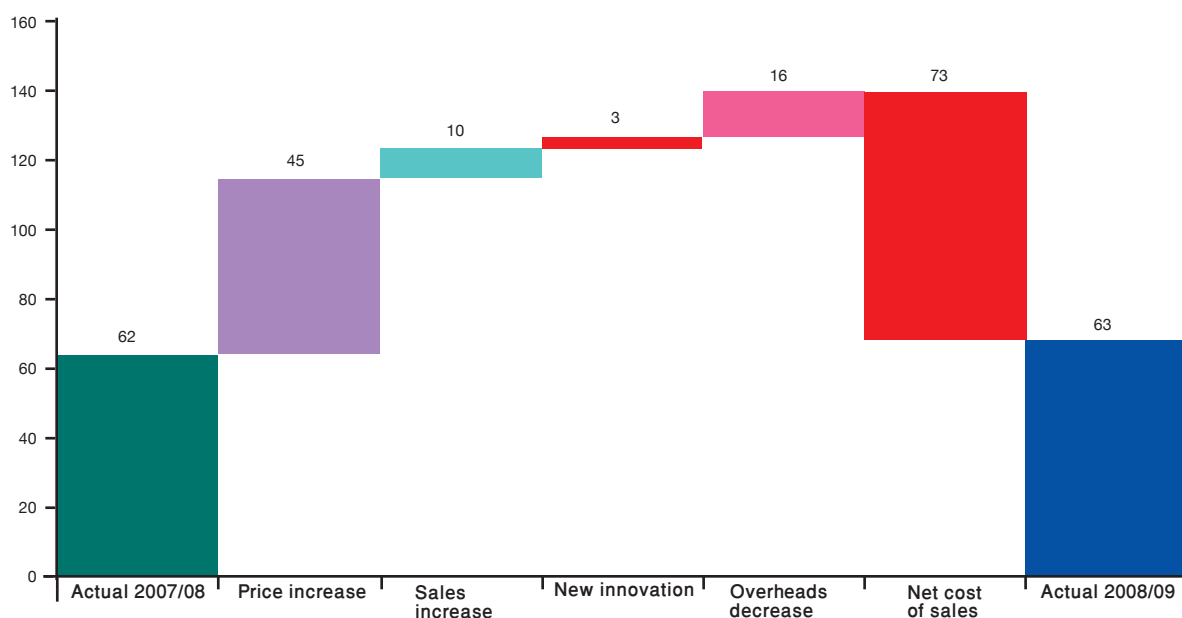


3. Operational costs for the fiscal year ended 31/03/2009 compared to the fiscal year ended 31/03/2008:

(Amounts in million SAR)	March 2009	March 2008	% of variation
Material cost	577	503	-15
Other cost	83	90	8
Selling & Admin. Exp.	199	216	8
Total operating cost	859	809	-6

4. Main operating expenses as a percentage of sales for the current year compared to last year:

(Amounts in million S.R)	March 2009	% of N.S.	March 2008	% of N.S.
Direct material cost	577	62.6%	503	57.7%
Overheads	191	20.7%	205	23.5%
Media cost	52	5.6%	56	6.4%
Depreciation & Amortization	39	4.2%	45	5.2%
Total costs	859	93.2%	809	92.9%



5. Financial position of the Company for the fiscal year ended 31/03/2009 as compared to last year:

(Amounts in million SAR)	Current assets	Fixed assets	Non-current assets	Current liabilities	Non current liabilities	Total equity
March 2009	385.7	232.3	87.7	137	62.8	502.6
March 2008	440.1	256.8	57.4	178	60.6	515.3

6. Cash flow of the company:

(Amounts in million SAR)	March 2009	March 2008
Net cost provided by operating activities	57.5	2.9
Net cash (used in) provided by investing activities	(44.4)	7.6
Net cost used in financing activities	(49.0)	(34.0)
Cash at beginning of the year (Incl. rate fluctuations)	85.8	106.3
Cash & cash equivalent at the end of the year	49.9	82.8

7. Operational performance of the company for the current year compared to past five years:

(Amount in million S.R)	March 2009	March 2008	March 2007	March 2006	March 2005	March 2004
Net sales	922	871	759	825	863	821
Cost of sales following	-659	-593	-473	-551 -	511	-469
Gross profit	263	278	286	273	352	351
Other revenue	-26	5	-1	-1	7	17
Selling & distribution	-155	-165	-186	-226	-208	-201
General & Admin.	-45	-52	-55	-57	-52	-54
Fiscals & bank charges	-1	-1	-5	-11	-4	-5
Zakat	-8	-8	-6	-5	-4	-6
Net (loss) profit	28	57	33	-25	90	102

8. Financial position of the company for the current fiscal year compared to the past five years:

(Amount in million S.R)	March 2009	March 2008	March 2007	March 2006	March 2005	March 2004
Working capital	248.7	262.1	189.1	132.9	209.1	216.2
Fixed asset	232.2	256.8	311.2	346.6	369.1	347.8
Total debts	1.2	6.3	22.4	138.9	160.2	134.3
End of service	62.8	60.5	61.1	73.1	76.4	70.0
Share holders equity	502.6	515.3	492.3	455.1	554.5	544.1
Total assets	719.3	763.9	732.3	769.9	883.6	844.7

9. Key Indicators:

	March 2009	March 2008	March 2007	March 2006	March 2005	March 2004
Returns on sales	3%	6.6%	4.3%	-3%	10.5%	12.4%
Returns of share holder equity	5.6%	11.1%	6.7%	-5.4%	16.3%	18.7%
Current ratio	2.80	2.47	2.06	1.57	1.86	1.98
Debt equity ratio	39.8%	46.3%	48.7%	33.2%	57.2%	53.3%
Sales growth	6%	14.8%	-6.8%	-4.4%	5.1%	3.2%

10. Loans:

(Amount in million SAR)	March 2009	March 2008	March 2007	March 2006	March 2005	March 2004
Short term loan	1.2	6.3	20.9	136.6	157.7	131.2
Long term loan	0	0	1.5	2.3	2.5	3.1

11. Investment: SADAFCO owns investment in several companies with either full ownership or majority stakeholder,

	Name of the company	Country	% of ownership	Activities
1	Sadafco Foodstuff	UAE	100%	Distri. of Sadafco products in UAE
2	Sadafco Bahrain	Bahrain	100%	Distri. Of Sadafco products in Bahrain
3	Sadafco Qatar	Qatar	75%	Distri. Of Sadafco products in Qatar
4	Sadafco Foodstuff	Jordan	100%	Distri. Of Sadafco products in Jordan

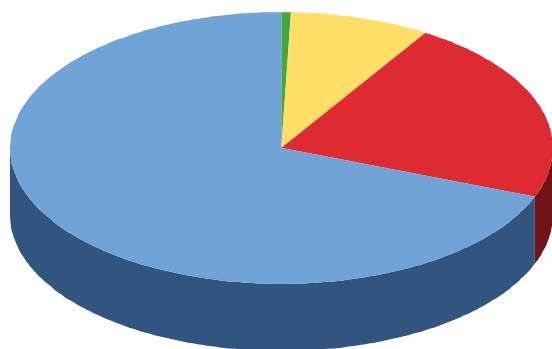


Marketing and Sales

Company performance for the fiscal year ended 31.03.2009.

The sales of the company increased during the current year by 6% reaching SR 922 million. This growth is attributed to the effective implementation of the products promotion and suppliers incentives for

reducing the effects of price increase, which resulted in decreasing the quantity and hampering the launch of new products.



Product	Percentage
Milk	69.2 %
Foodstuff & Drinks	22 %
Ice Cream	8.4 %
Other products	0.4 %
Total	100 %





Production & Manufacturing Operations:

Production and manufacturing operations have focused on developing the performance of plants and production lines through the following hubs: Improving customer service and product availability, raising quality standards, performance and reliability of people and equipment as well as reducing the costs of conversion process.



Supply Chain and Transportation:

The current year witnessed a renewal for the transportation fleet, which contributes effectively in delivering unparalleled products to the distribution points of the company, accompanied by an increase in storage capacity in the kingdom. The supply chain department successfully managed to meet the production requirements through securing required raw materials, to satisfy customer needs, while controlling the prices of some raw

materials through the diversification of suppliers and sources.





Human Resources and Saudization

SADAFCO believes that the workforce is the key element in the development and success, and despite the financial crisis, which have banned employment in some companies, SADAFCO hired 210 employees during the fiscal year 2008/2009 and maintaining approximately 30% Saudization level, which holds out the promise for continued growth and which in return will reflect positively on the financial results for the years to come.

There were some issues and labor disputes pending before the Labor office raised by some former employees of the company since 2006. The Supreme Judicial Commission issued ruling to the company to reappoint 5 Saudi employees on their jobs. The company accepted this ruling and fully implemented it and has also amicably solved four other issues with Saudi employees.

With regard to training and development, the company has held a number of internal and external courses for company staff to develop their abilities in various fields.





Corporate Social Responsibility:

As part of the social responsibility, which Sadafco highly believes in its value, the company sponsored the following events:

1. Sponsoring the International Milk Day

2. Hosting 200 students from Al Abana'a schools in the (Know Your Country) tournament which was organized by the Ministry of Defense & Aviation).

3. Distributing many products to various schools as a support to different charity organizations.

4. Sponsoring the forum of "Future Saudi Females" in Dar Alhekma College.





Shareholders Statements:

In the fiscal year ended 31/03/2009 no prime changes have been made by the shareholders on the equity ownership that worth to be disclosed to the Capital Market

and Tadawul site as required by the rules of registration and insertion.

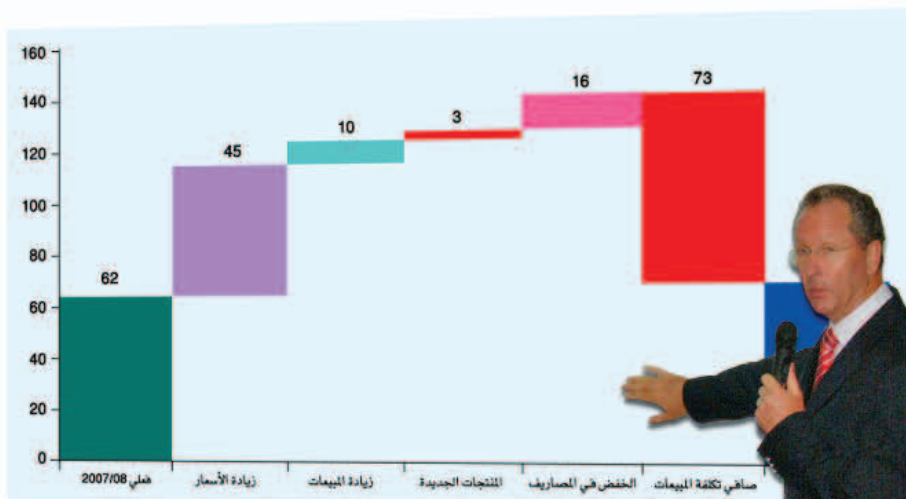
Corporate Governance and Transparency:

The Board of Directors confirms that the internal audit policy that is adopted by SADAFCO has been applied rightly and effectively and that the company is keeping its accounting records and that the accounting procedures are established as required by the Saudi companies' regulatory system. This is done perfectly in accordance with the requirements of the "Saudi Association of Chartered Accountants". The Board of Directors also confirms that SADAFCO's fiscal statements, as given for the fiscal year ended 31.03.09 are correct and the budget of the fiscal year ended 31.03.09 do not include and omit any incorrect clauses or statement

that are important and that no statement, information nor amount, of relevant importance, was dropped, removed or eliminated in such a way that could render those statements misleading. Additionally, SADAFCO adheres to the rules and regulation of CMA of corporate governance and provides the required information to all shareholders as per the laws and regulations to maintain the required transparency.



Net Profit Development March 2008 to March 2009 (In SAR min)





Board of Directors





Executive Management



Board of Directors and sub-committees:

The board has accumulated extensive experience, by which they continuously support the work force of SADAFCO taking a very constructive role in the development of SADAFCO.

	Name	Title	Classification
1	Sheikh Hamad AlSabbah	Chairman	Non-Executive
2	Mr. Faick AlSaleh	Vice Chairman	Non-Executive
3	Mr. Faisal AlAyyar	Member	Non-Executive
4	Mr. Abdullah Bishara	Member	Non-Executive
5	Mr. Essa AlSaleh	Member	Non-Executive
6	Mr. Mussad Alnassar	Member	Executive
7	Mr. Sulaiman AlJarAllah	Member	Non-Executive

List of BOD meeting during the year 2008/2009:

	Name	Attended	By circulation	Total
1	Sheikh Hamad AlSabbah	3	6	9
2	Mr. Faick AlSaleh	4	6	10
3	Mr. Faisal AlAyyar	4	6	10
4	Mr. Abdullah Bishara	4	6	10
5	Mr. Essa AlSaleh	4	6	10
6	Mr. Mussad Alnassar	4	6	10
7	Mr. Sulaiman AlJarAllah	4	6	10

The following committees stem from the Board of Directors:

No	Committees	Members
1	Internal Audit	1. Mr. Faisal AlAyyar 2. Mr. Faick AlSaleh 3. Mr. Essa AlSaleh
2	Real Estate	1. Mr. Faick AlSaleh 2. Mr. Essa AlSaleh 3. Mr. Mussad AlNassar

Executive board member and Executive management compensation and benefits:

In Thousands	Salaries	Allowances	Bonuses	Incentive plans	Benefits	Total
Executive BOD	336,260	130,796	200,000	0	0	667,056
Executive management	3,946,667	1,389,698	0	0	300,000	5,636,365

Remuneration of the Board of Directors:

Pursuant to the Companies' Regulations and the company's by laws, the Board of Directors remuneration amounted to SR 1.4 million in the year ended 31.03.09.

Distribution of Dividends

The board considers the current period as a transitional one that required investment in the development of the infrastructure and upgrading factories' capacities. Therefore, the board has decided to forward

the balance of net profit to retain earnings.



The Board recommends to the AGM the following:

- Approve and sanction of the Board of Directors report for the year ended 31.03.09
- Approve and sanction of the final statements and profits and loss accounts for the period from 01.04.08 to 31.03.09 and the auditors report.
- Approve the selection of accounts auditors from among the nominees of the audit committee to audit company accounts for the fiscal year from 01.04.09 to 31.03.10 together with the quarterly reports and to set their fees.
- Release the Board of Directors liabilities for the period from 01.04.08 to 31.03.09
- Approve Board of Directors achievements since April 1, 2009 till AGM date.
- Approve the election of new board of directors among the nominees for the board's fourth session which begins with the AGM date.

Conclusion

The Board of Directors extends their gratitude to the valuable shareholders and customers for their trust and participation.

Additionally the board would like to thank the management and the work team for their effort and great performance.





Fiscal Statment

SAUDIA DAIRY & FOODSTUFF COMPANY
(SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

CONSOLIDATED FISCAL STATEMENTS
31 March 2009
With
AUDITORS' REPORT

د. يوسف و. يوسف

P. O. Box 1994
Jeddah 21441
Kingdom of Saudi Arabia

Deloitte

دیلوئیٹ آند ٹوش
بکر أبو الخیر وشركاهم
ص. ب ٤٤٢ جده ٢١٤١١
المملكة العربية السعودية

AUDITOR'S REPORT

The Shareholders
Saudia Dairy and Foodstuff Company (SADAFCO)
(Saudi joint stock company)
Jeddah, Saudi Arabia

Scope of audit:


We have audited the consolidated balance sheet of Saudia Dairy and Foodstuff Company (SADAFCO) (the Company) and its subsidiaries (the Group) at 31 March 2009 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the accompanying notes 1 through 25 which form an integral part of these consolidated fiscal statements. These consolidated fiscal statements have been prepared by the Group's management in accordance with the provisions of Article 123 of the Regulations for Companies and submitted to us, together with all the information and explanations which we required. Our audit was conducted in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary to obtain a reasonable degree of assurance to enable us to express an opinion on the consolidated fiscal statements.

Unqualified opinion:

In our opinion, the consolidated fiscal statements, taken as a whole:

- 1- Present fairly in all material respects the consolidated fiscal position of Saudia Dairy and Foodstuff Company (SADAFCO) and its subsidiaries at 31 March 2009 and the results of the Group's operations and cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- 2- Comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the consolidated fiscal statements.

Deloitte & Touche.
Bakr Abulkhair & Co:



Yaser H. Balkhi
Certified Public Accountant
Registration No. 389

Ernst & Young:



Ahmed I. Reda
Certified Public Accountant
Registration No. 356



21 Jumad Awal 1430H
16 May 2009



SAUDIA DAIRY & FOODSTUFF COMPANY
(SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
CONSOLIDATED FISCAL STATEMENTS
31 March 2009

		2009	2008
	Note	(SR'000)	(SR'000)
ASSETS			
Current assets:			
Cash and cash equivalents	3	49,870	82,831
Trading investments	7b	-	27,004
Accounts receivable	4	155,042	126,749
Deposits and prepayments	5	21,943	14,788
Inventories	6	158,824	188,761
Total current assets		385,679	440,133
Non-current assets			
Available-for-sale investments	7	63,175	24,984
Long term investments	8a	23,868	30,998
Intangible assets	9	709	1,417
Property, plant and equipment	10	232,341	256,772
Total non-current assets		320,093	314,171
Assets relating to a subsidiary held for disposal	11	13,559	9,627
Total assets		719,331	763,931
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term bank debts	12	1,243	6,281
Accounts payable		41,529	88,431
Payable to affiliates and shareholders	19	8,892	7,322
Accruals and other liabilities		70,789	61,116
Accrued Zakat	18	13,817	14,571
Unpaid dividend		726	293
Total current liabilities		136,996	178,014
Non-current liabilities			
Employees' end of service benefits		62,838	60,549
Long-term debt		-	47
Total non-current liabilities		62,838	60,596
Equity:			
Parent shareholders' equity:			
Capital	13	325,000	325,000
Statutory reserve	13	120,421	117,590
Voluntary reserve	13	29,615	26,784
Foreign currency translation adjustments		(1,979)	(6,984)
Unrealised gain on available-for-sale-investment	7	4,761	492
Retained earnings		24,476	51,977
Parent shareholders' equity		502,294	514,859
Minority interest		331	420
Total equity		502,625	515,279
Liabilities relating to a subsidiary held for disposal	11	16,872	10,042
Total liabilities and equity		719,331	763,931

The accompanying notes 1 to 25 form an integral part of these consolidated fiscal statements.

SAUDIA DAIRY AND FOODSTUFF COMPANY
(SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 March, 2009

	Note	2009 (SR'000)	2008 (SR'000)
Net sales		922,274	870,862
Cost of sales		(659,687)	(592,560)
Gross profit		262,587	278,302
Expenses:			
Selling and distribution	14	(154,664)	(164,816)
General and administrative	15	(44,729)	(51,633)
Total expenses		(199,393)	(216,449)
Operating income		63,194	61,853
Unrealised/ realised (loss)/gain on trading investment		(2,354)	11,352
Investment income – net	8e	3,060	2,987
Other income (expense) – net		111	(171)
Fiscal charges – net		(1,456)	(589)
Gain on sale of property, plant and equipment	10e/f	2,662	15,355
Loss on sale of investment	8c	-	(466)
Write off / provision against affiliate receivable		-	(9,953)
Provision for non - temporary decline in value of available-for-sale-investments	7a	(26,296)	-
Net income from continuing operations before minority		38,921	80,368
interests and Zakat			
Discontinuing operations:			
Net loss for the year from discontinuing	11	(3,021)	(15,585)
Net income before zakat		35,900	64,783
Zakat charge for the year	18a	(7,500)	(7,500)
Net income for the year after zakat		28,400	57,283
Attributable to:			
Equity shareholders of the Parent		28,311	58,472
Minority interests		89	(1,189)
Net income for the year		28,400	57,283
Earnings per share on operating income - SR (Note 20)		1.94	1.90
Earnings per share on net income after zakat - SR (Note 20)		0.87	1.76
Earnings per share attributable to equity shareholders of the Parent - SR (Note 20)		0.87	1.80

The accompanying notes 1 to 25 form an integral part of these consolidated fiscal statements.

SAUDIA DAIRY & FOODSTUFF COMPANY
(SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March, 2009

	2009	2008
	<u>(SR'000)</u>	<u>(SR'000)</u>
Operating activities:		
Net income for the year attributable to equity shareholders of the Parent	28,311	58,472
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	37,838	43,492
Amortization and write off of intangible assets	709	1,397
Minority interests	(385)	(3,979)
Gain on disposal of property, plant and equipment	(2,662)	(14,446)
Realised/unrealised loss/(gain) on trading investments	2,354	(4,763)
Investment income - net of adjustments	(3,060)	(2,987)
Loss on sale of investment	73	466
Provision for non temporary decline in value of available-for- sale investments	26,296	-
Changes in operating assets and liabilities:		
Increase in accounts receivable	(19,092)	(9,198)
(Increase)/decrease in deposits and prepayments	(7,314)	276
Decrease/(increase) in inventories	28,363	(81,594)
(Decrease)/increase in accounts payable	(46,580)	8,099
Increase/(decrease) in payable to affiliates and shareholders	1,593	(4,170)
Increase in accrued Zakat, accruals and other liabilities	8,767	12,474
Employees' end of service benefits – net	2,288	(608)
Total adjustments	<u>29,188</u>	<u>(55,541)</u>
Net cash from operating activities	<u>57,499</u>	<u>2,931</u>
Investing activities:		
Net movement in investments	(23,925)	(3,321)
Dividend received	11,318	-
Movement in long-term investment portfolio	(10,900)	-
Changes in net assets directly associated with a subsidiary held for disposal	2,898	12,883
Sale proceeds of property, plant and equipment	5,341	2,525
Purchases of property, plant and equipment	(29,102)	(4,487)
Net cash (used in)/from investing activities	<u>(44,370)</u>	<u>7,600</u>
Financing activities:		
Net movement in short-term and long-term debts	(326)	(1,548)
Dividend paid	(48,750)	(32,500)
Net cash used in financing activities	<u>(49,076)</u>	<u>(34,048)</u>
Net decrease in cash and cash equivalents	(35,947)	(23,517)
Effect of exchange rate fluctuations on cash and cash equivalents	2,986	1,856
Cash and cash equivalents at the beginning of the year	<u>82,831</u>	<u>104,492</u>
Cash and cash equivalents at the end of the year	<u>49,870</u>	<u>82,831</u>
Supplemental non-cash information		
Amount due from a related party in respect of sale of land (note 10e)	-	17,000

The accompanying notes 1 to 25 form an integral part of these consolidated fiscal statements.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2009

Capital	Attributable to Equity Shareholders of the Parent						
	Statutory Reserve	Voluntary Reserve	Foreign currency translation adjustments	Unrealised gain on investment available-for-sale	Retained earnings	Total	Minority interest
(SR'000)	(SR'000)	(SR'000)	(SR'000)	(SR'000)	(SR'000)	(SR'000)	(SR'000)
Balance at 1 April 2007	325,000	111,743	53,437	(8,840)	-	6,599	487,939
Net income for the year	-	-	-	-	-	58,472	58,472
Transfer to reserves	-	5,847	5,847	-	-	(11,694)	-
Dividend declared (Note 21)	-	-	(32,500)	-	-	-	-
Unrealized gain on revaluation of investment	-	-	-	-	492	-	-
Board of directors' remuneration (Note 19 (c))	-	-	-	-	-	(1,400)	-
Foreign currency translation adjustments	-	-	-	1,856	-	-	-
Balance at 31 March 2008	325,000	117,590	26,784	(6,984)	492	51,977	514,859
Net income for the year	-	-	-	-	-	28,311	28,311
Transfer to reserves	-	2,831	2,831	-	-	(5,662)	-
Dividend declared (Note 21)	-	-	-	-	-	(48,750)	-
Net change in fair value of available for sale investments	-	-	-	-	(22,027)	-	-
Transfer to consolidated statement of income: provision for non-temporary decline in value of available-for-sale	-	-	-	-	26,296	-	-
Board of directors' remuneration (Note 19(c))	-	-	-	-	-	(1,400)	-
Foreign currency translation adjustments	-	-	-	5,005	-	-	-
Balance at 31 March 2009	325,000	120,421	29,615	(1,979)	4,761	24,476	502,294
							331
							502,625

The accompanying notes 1 to 25 form an integral part of these consolidated fiscal statements.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FISCAL STATEMENTS
For the year ended 31 March, 2009

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudia Dairy and Foodstuff Company (SADAFCO) (the Company) is a Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030009917. The Company and its subsidiaries (listed in Note 2a), collectively described as the Group in these consolidated fiscal statements, are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in Saudi Arabia and certain Gulf and Arab countries. One of the subsidiaries in Egypt (Arab Company for Animal Produce SAE) is engaged in dairy farming business. During the year, the Company has sold this subsidiary (see note 2(a) and 11(a)).

Another subsidiary, Swiss Premium Foods Company SAE, Egypt is engaged in manufacturing and producing ice cream products. The Board of Directors have decided to sell the subsidiary (see note 2(a) and 11(b)).

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated fiscal statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. The following significant accounting policies have been applied consistently:

(a) Basis of consolidation - The consolidated fiscal statements include the fiscal statements of SADAFCO and the following entities controlled by SADAFCO:

	SADAFCO's beneficial interest
• SADAFCO Foodstuff Company LLC, UAE	100%
• SADAFCO Bahrain Company, WLL, Bahrain	100%
• SADAFCO Jordan Foodstuff Company LLC, Jordan	100%
• SADAFCO Qatar	75%

Other subsidiaries:

- Arab Company for Animal Produce SAE, Egypt (see note below)
- Swiss Premium Foods Company SAE, Egypt (see note below)

During the year, the Company has sold all of its ownership interest of 89.3% in Arab Company for Animal Produce SAE, Egypt (see note 11 (a)).

The Board of Directors have also decided to sell Swiss Premium Foods Company SAE, Egypt, having beneficial interest of 96.3%. Consequently, this subsidiary is classified as a subsidiary held for disposal as at 31 March 2009. (see note 11(b)).

Part of the Company's investments in SADAFCO Foodstuff Company LLC, UAE, SADAFCO Bahrain Company, WLL, Bahrain and SADAFCO Jordan Foodstuff Company LLC, Jordan are beneficially held by the Company through parties nominated by the Company.

All intra-group balances and transactions arising from transactions between SADAFCO and its subsidiaries and those arising between the subsidiaries are eliminated in preparing the consolidated fiscal statements.

Minority interests are computed as an aggregate of their equity interests shown in the consolidated balance sheet and share of net earnings for the year shown in the consolidated statement of income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Minority interests are computed as an aggregate of their equity interests shown in the consolidated balance sheet and share of net earnings for the year shown in the consolidated statement of income.

- (b) **Accounting conventions** – The consolidated fiscal statements, expressed in thousands of Saudi Arabian Riyals, are prepared under the historical cost basis (except for trading investments, available-for-sale investments and derivative fiscal instruments which are stated at their fair values), using the accrual basis of accounting and the going concern concept.
- (c) **Revenue recognition** – Sales are recognized when products are delivered or shipped to customers. Sales represent the invoiced value of the goods supplied during the year, net of discounts and returns.
- (d) **Inventories** – Inventories are valued at the lower of cost (determined principally by using the standard cost method but adjusted to approximate the respective actual cost) and net realizable value. Costs of finished goods include material cost, direct labour and appropriate manufacturing overhead. The cost of inventories includes expenditure incurred in acquiring and bringing them to their existing location and condition.
- (e) **Intangible assets** – This primarily represents product development costs which are being amortized over a period of five years.
- (f) **Capitalisation of borrowing costs** – Borrowing costs attributable to acquisition of, and capital expenditure on property, plant and equipment are capitalised during the construction period.
- (g) **Trading investments** – Investments in readily marketable securities which are purchased for trading purposes, are stated at fair value and included under current assets. Changes in fair value are credited or charged to the statement of income as part of the other income. Fair value is determined by reference to the market value.
- (h) **Investments** – Investment in Saudi New Zealand Milk Products Company Limited, Saudi Arabia (jointly controlled entity with 51% ownership interest) and other entities in which SADAFCO does not have control, but has the ability to exercise significant influence over operating and fiscal policies, are accounted for under the equity method.

Other investments are classified as investments available for sale as they do not meet the criteria of securities held to maturity or held for trade. These are initially recorded at cost and then re-measured and stated in the balance sheet at fair value. Fair value is determined by reference to the market value if an open market exists. Where fair value cannot be reliably determined, these are carried at cost. Unrealized gains and losses arising from the fair value adjustment, if any, are reported as a separate item under shareholders' equity.

Realized gain or loss on sale of investments is taken to the statement of income. Any decline in value of investments, considered by the management to be other than temporary, is charged to the statement of income. Dividend income of such investments are recorded when declared.

- (i) **Property, plant and equipment** – Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated. The cost less estimated residual value of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets, using the following annual percentage rates:

	%
Buildings	2.5-10
Machinery and equipment	10-33
Vehicles and trailers	15-25
Furniture, fixtures and office equipment	10-25

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

- (j) **Zakat and income tax** – Zakat is computed in accordance with Saudi Arabian Fiscal Regulations and is charged to the statement of income. Income tax, if any, for the subsidiaries is computed in accordance with the relevant fiscal regulations and charged to the statement of income.
- (k) **Employees' end of service benefits** – Provision is made for amounts payable under the Saudi Arabian labour regulations applicable to employees' accumulated periods of service at the balance sheet date and are presented net of advances given.
- (l) **Expenses** – Selling and distribution expenses are those arising from SADAFICO Group's efforts underlying their marketing, selling and distribution functions. All other expenses are classified as general and administrative expenses.
- (m) **Operating lease payments** – Payments under operating leases are recognized in the statement of income on a straight-line basis over the terms of the lease.
- (n) **Foreign currencies**
Transactions
Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing at the dates of the respective transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Saudi Arabian Riyals (for parent company) or the relevant currencies (for subsidiaries) at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of income.

Foreign currency translation
Exchange difference, arising from the translation of foreign currency fiscal statements of subsidiaries are allocated to the Company and minority shareholders in proportion to their ownership interests in the investee companies. SADAFICO's share in exchange difference is recorded as a separate component of shareholders' equity, whereas amounts relating to the minority shareholders are included under minority interests in the balance sheet.
- (o) **Derivative fiscal instruments** – The Company uses interest rate swaps to strategically hedge its risk against interest rate movements and thus hedge accounting is not followed. The interest rate swaps are included in the balance sheet at fair value and any resultant gain or loss is recognized in the statement of income. The fair values of interest rate swaps are included in "other receivables" in case of favourable contracts and "other payables" in case of unfavourable contracts.
- (p) **Cash and cash equivalents** – For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, current accounts with banks, funds placed for investment and short-term bank deposits having original maturity within 90 days.
- (q) **Accounts receivable** - Accounts receivable are stated at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.
- (r) **Accounts payable and accruals** - Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.
- (s) **Provisions** - Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at 31 March, comprise the following:

	2009 (SR'000)	2008 (SR'000)
Cash and cheques in hand	6,518	4,613
Balance with banks in current accounts and short term		
Deposits	42,227	31,533
Deposits with fund managers (note 19)	1,125	46,685
	49,870	82,831

4. ACCOUNTS RECEIVABLE

Accounts receivable at 31 March, comprise the following:

	2009 (SR'000)	2008 (SR'000)
Trade receivables	112,912	99,829
Less: Provision for doubtful accounts	(10,855)	(9,862)
Net trade receivables	102,057	89,967
Affiliates	53,075	31,849
Less: Provision for doubtful accounts	(13,830)	(12,296)
	39,245	19,553
Advances and other receivables	16,096	19,585
Less: Provision for doubtful accounts	(2,356)	(2,356)
	13,740	17,229
	155,042	126,749

As at 31 March, 2009, accounts receivable at carrying value of SR 27,041 thousand (2008: SR 24,514 thousand) were impaired. Movements in the provision for impairment of receivables were as follows:

	2009 (SR'000)	2008 (SR'000)
At 1 April	24,514	17,193
Charge for the year	2,576	12,679
Amounts written off	(49)	(5,358)
At 31 March	27,041	24,514

4. ACCOUNTS RECEIVABLE (continued)

As at 31 March, the ageing of unimpaired trade receivables is as follows:

	Total (SR 000)	Neither past due nor impaired (SR 000)	Past due but not impaired				120 days (SR 000)
			30days (SR 000)	30-60 days (SR 000)	60-90 days (SR 000)	90-120 days (SR 000)	
2009	102,057	45,728	27,865	16,466	6,650	2,767	2,581
2008	89,967	36,944	20,595	13,053	5,963	3,850	9,562

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of SADAFCO to obtain collateral over receivables.

5. DEPOSITS AND PREPAYMENTS

Deposits and prepayments at 31 March 2009 include a sum of SR 2,515 thousand (2008: SR 4,972 thousand) representing margin deposits with the banks against guarantees issued by the Group's bankers.

6. INVENTORIES

Inventories at 31 March comprise the following:

	2009 (SR'000)	2008 (SR'000)
Raw and packing materials	94,573	77,522
Finished goods	39,385	38,556
Spare parts, supplies and other items	11,828	12,771
Goods-in-transit	13,038	59,912
	<u>158,824</u>	<u>188,761</u>

7. AVAILABLE FOR SALE INVESTMENTS

a) This represents investments in available-for-sale equity securities and is analysed as follows:

	2009 (SR'000) <u>Quoted</u>	2008 (SR'000) <u>Quoted</u>
Cost:		
At the beginning of the year	24,492	-
Purchased during the year	26,699	24,492
Reclassification from trading investment (see note (b) below)	33,519	-
	<u>84,710</u>	<u>24,492</u>
Valuation adjustment:		
At the beginning of the year	492	-
Net change in fair value taken to consolidated statement of changes in equity	4,269	492
Sub total	4,761	492
Provision for non - temporary decline in value	(26,296)	-
	<u>(21,535)</u>	492
At the end of the year	<u>63,175</u>	<u>24,984</u>

(b) During the year, the Board of Directors have resolved that effective 1 July 2008, SADAFCO's portfolio investment managed by an affiliate professional fund manager are to be reclassified from trading investment to available-for-sale investments and included under non-current assets in SADAFCO's balance sheet. This reclassification is in line with SADAFCO's revised strategy not to hold these investments in securities for selling or re-purchasing in the near term but to hold them for long term capital appreciation purposes. Accordingly, effective from 1 July 2008, the carrying value of these investments at this date, amounting to SR 33,519 thousand, were considered as the carrying value of the available-for-sale investments and subsequent unrealized gains and losses (other than non-temporary), arising from the fair value adjustment of these investments, if any, are reported as a separate item under parent shareholders' equity.

8. LONG-TERM INVESTMENTS

(a) Long-term investments at 31 March comprise the following

	2009 (SR'000)	2008 (SR'000)
Investment in jointly controlled entity (note 8b)	23,625	30,255
Other investments available for sale (unquoted)	1,336	1,836
	<u>24,961</u>	<u>32,091</u>
Less: Provision for non-temporary decline in value	(1,093)	(1,093)
	<u>23,868</u>	<u>30,998</u>

(b) Investment in jointly controlled entity is in respect of the following company:

	Ownership interest
Saudi New Zealand Milk Products Co. Ltd., Saudi Arabia	51%

Investment in Saudi New Zealand Milk Products Co. Ltd., Saudi Arabia (SNZMP) at 31 March 2009 includes a sum of SR 7.7 million (2008: SR 7.7 million), representing interest-free loan provided to SNZMP. SADAFCO has no intention to seek its repayment during the twelve months following 31 March 2009.

- (c) In prior years, SADAFCO sold the majority of its interest in Egyptian Dairy and Foodstuff Company, Egypt (ex-subsidiary) and F&B Venture Holding, SAL, Lebanon (ex-associate) along with assets and technical know-how relating to a straw factory, to Biomatrix Investment Holding Company Limited, British Virgin Island (Biomatrix). In March 2007, as part of a deal between United Industries Company, Kuwait (an affiliate) and a third party an understanding was reached whereby the residual investment in Egyptian Dairy and Foodstuff Company, Egypt and F&B Venture Holding, SAL, Lebanon was sold to United Fisheries of Kuwait K.S.C. (an affiliate which has concurrently been sold to the third party). Sale proceeds for the sale of the residual investment amounting to SR 9,719 thousand against a carrying value of SR 10,185 thousand (representing net cost of investments of SR 7,053 thousand and net receivables of SR 3,132 thousand) were received during the year ended 31 March 2008. Consequently, a loss of SR 466 thousand was booked and the investments were derecognized in the fiscal statements for the year ended 31 March 2008. However, legal proceedings are still underway to transfer the title of the sold shares of Egyptian Dairy and Foodstuff Company, Egypt and F&B Venture Holding, SAL, Lebanon.
- (d) SADAFCO's ownership interest in some of the investments is held through parties nominated by the Company.
- (e) Investment income – net for the year ended 31 March, comprises the following:

	2009 (SR'000)	2008 (SR'000)
Saudi New Zealand Milk Products Company Ltd., Saudi Arabia	3,060	3,060
Others	-	(73)
	<u>3,060</u>	<u>2,987</u>

9. INTANGIBLE ASSETS

Intangible assets representing deferred costs at 31 March comprise the following:

	2009	2008
	(SR'000)	(SR'000)
Total amount	6,370	7,002
Write off	-	(632)
Amortization to-date	(5,661)	(4,953)
Balance at end of the year	709	1,417

10. PROPERTY, PLANT AND EQUIPMENT

(a) The movement in property, plant and equipment for the year ended 31 March, 2009 is analysed as follows:

	Land and buildings	Machinery and equipment	Vehicles and trailers	Furniture, fixtures and office equipment	Capital work in-progress	Total
Cost:	(SR'000)	(SR'000)	(SR'000)	(SR'000)	(SR'000)	(SR'000)
Balance at beginning of the year	224,222	539,984	133,977	50,184	2,662	951,029
Cost relating to a subsidiary held for disposal, included above	(3,126)	(16,289)	(1,971)	(1,317)	-	(22,703)
Additions	98	1,070	12,035	692	15,208	29,103
Disposals	(3,492)	(4,050)	(1,569)	(503)	-	(9,614)
Reclassifications	1,693	5,858	-	134	(7,685)	-
Effect of fluctuations in foreign exchange rates	25	15	20	5	-	65
Balance at end of the year	219,420	526,588	142,492	49,195	10,185	947,880
Accumulated depreciation:						
Balance at beginning of the year	129,592	401,722	116,807	46,136	-	694,257
Accumulated depreciation relating to a subsidiary held for disposal, included above	(663)	(6,655)	(1,374)	(996)	-	(9,688)
Charge for the year	5,335	23,523	7,775	1,205	-	37,838
Disposals	(1,242)	(4,019)	(1,256)	(435)	-	(6,952)
Effect of fluctuations in foreign exchange rates	5	38	32	9	-	84
Balance at end of the year	133,027	414,609	121,984	45,919	-	715,539
Net book amounts:						
At 31 March 2009	86,393	111,979	20,508	3,276	10,185	232,341
At 31 March 2008	94,630	138,262	17,170	4,048	2,662	256,772

Included in the above are assets with a net book value of SR 6.6 million, which are held for disposal and on which no depreciation is being charged. The recoverable value of these assets is expected to be higher than their net book value.

10. PROPERTY, PLANT AND EQUIPMENT (continued)

- (b) Capital work-in-progress included in property, plant and equipment, mainly represents cost of civil works in factory and warehouse.
- (c) Depreciation charge for the year ended 31 March, has been allocated as follows:

	2009 (SR'000)	2008 (SR'000)
Cost of sales	19,419	19,799
Selling and distribution expenses (note 14)	17,303	22,103
General and administrative expenses (note 15)	1,116	1,590
	<u>37,838</u>	<u>43,492</u>

- (d) The ownership interest of the Company in certain freehold land amounting to SR 1,538 thousand (2008: SR 6,183 thousand) is through certain shareholders of the Company.
- (e) During the year ended 31 March 2008, the Company sold a plot of land having a cost of SR 4,645 thousand to Kuwait Real Estate Company Limited (a related party) for SR 20,000 thousand, resulting in a gain of SR 15,355 thousand which was recorded for the year ended 31 March 2008. Out of the sale value of SR 20,000 thousand, the Company had received SR 3,000 thousand during the year ended 31 March 2008 and the remaining balance of SR 17,000 thousand was to be received on 30 March 2009.

Management expected to complete the legal formalities to transfer the title of land to the buyer before 30 March 2009 and had an understanding with the buyer to receive a cheque payment of SR 17,000 thousand on the due date.

Although the Company has received a cheque of SR 17,000 thousand from the buyer on the due date, as the legal formalities to transfer the title to the buyer have not been completed by the Company within the agreed timeframe, the Company has agreed with the buyer not to deposit the cheque into the Company's bank account until the legal formalities to transfer the title are completed. As such the receivable of SR 17,000 thousand remains outstanding as at the balance sheet date.

Management is confident that the legal formalities will be completed in the near future and once these are completed, the receivable will be realised through depositing the cheque received from the buyer into the Company's bank account.

- (f) During the year, the Company sold its property, plant and equipment relating to 'Snack Food Factory', with assets at book value on the date of sale of SR 2,217 thousand, to a third party for SR 4,600 thousand. Consequently, a gain of SR 2,383 thousand was recorded in the statement of income as gain on sale of property, plant and equipment.

11. DISCONTINUING OPERATIONS (SUBSIDIARIES HELD FOR DISPOSAL)

- (a) During the year, the Company sold its 89.3% holding in its subsidiary, Arab Company for Animal Produce SAE, Egypt (ACFAP) to Gulf Egypt Agriculture Investment and Food Industry (GEAIF), for a consideration of LE 42,800 thousands (equivalent to SR 29,232 thousands) which will be received in five instalments. As per the sale agreement, the first instalment of LE 12,000 thousand was due on 28 December 2008 and the remaining amount of LE 30,800 thousand is due in 4 equal annual instalments commencing from 28 December 2009 and concluding on 28 December 2012.

Before the sale, as at 31 March 2008, ACFAP had a net deficit at historical cost of SR 415 thousand and the fair value of net assets at that date amounted to SR 3,544 thousand. Under the sale agreement, the Company assumed a bank loan obligation of SR 8,641 thousands relating to ACFAP which was subsequently settled by the Company during the year. The present value of the sales consideration, as at 30 June 2008, amounted to SR 25,539 thousand and the sale agreement resulted in a gain on sale of subsidiary amounting to SR 11,710 thousand. Under the sale agreement, the shares in ACFAP were transferred to GEAIF and GEAIF has pledged the shares back in favour of the Company as security for the total selling price. Simultaneously, the Company had entered into a second agreement with ACFAP for the management and operation of livestock breeding project (the project), up to 31 December 2008, under which the Company had guaranteed ACFAP to pay a fixed return of LE 10,000 (SR 6,830 thousand) in addition to bearing the operating expenses (estimated to be SR 4,880 thousand) of the project, which resulted in a total provision of SR 11,710 thousand. As such no net gain or loss was recorded as a result of the above two agreements.

During the year, the management of SADAFCO and ACFAP mutually agreed to terminate the above second agreement as if the second agreement was never signed, without any fiscal or legal obligation on either party. The provision of SR 11,710 thousand has not been released as the management consider that this should be maintained until the full amount receivable under the sale agreement is recovered and all obligations of SADAFCO relating to disposal of this investment are fully discharged. The instalment of LE 12,000 thousand due on 28 December 2008 from GEAIF was collected in full as at 31 March 2009 and consequently at 31 March 2009, the Company has a receivable of SR 17,772 thousands (at present value) against sale of investments under the first agreement and a provision of SR 11,710 thousand.

- (b) During the year, the Company decided to sell the Company's beneficial interest of 96.3% in Swiss Premium Foods Company SAE, Egypt (SPF) and consequently, this subsidiary was classified as a subsidiary held for disposal. SPF is engaged in manufacturing and production of ice cream products.

The results of the subsidiaries held for disposal, for the years ended 31 March, are presented below

	2009 (SR'000)	2008 (SR'000)
Swiss Premium Foods Company SAE, Egypt		
Revenue	7,344	7,367
Cost of sales	(5,669)	(5,438)
Gross profit	1,675	1,929
Expenses	(4,696)	(4,566)
Net loss	(3,021)	(2,637)
Arab Company for Animal Produce SAE, Egypt	-	(12,948)
Net loss for the year from discontinuing operations	(3,021)	(15,585)

11. DISCONTINUING OPERATIONS (SUBSIDIARIES HELD FOR DISPOSAL) (continued)

The major classes of asset and liabilities of SPF classified as held for disposal, as at 31 March 2009, are as follows:

	2009 (SR'000)
Assets:	
Property, plant and equipment	11,352
Receivables	1,178
Inventories	934
Others	95
Assets classified as held for disposal	<u>13,559</u>
Liabilities:	
Payables to shareholder	10,497
Trade payable	833
Bank borrowings	4,653
Accrued liabilities	835
Others	54
Liabilities classified as held for disposal	<u>16,872</u>
Net liabilities directly associated with subsidiary held for disposal	<u><u>(3,313)</u></u>

The management is confident that the fair value (net of cost to sell) is higher than the carrying value of the net assets of the subsidiary held for disposal as at 31 March 2009.

The assets and liabilities held for disposal, amounting to SR 9,627 thousands and SR 10,042 thousands respectively, as at 31 March 2008 related to a subsidiary, Arab Company for Animal Produce SAE, Egypt. The subsidiary was sold during the year (see (a) above).

12. SHORT-TERM BANK DEBTS

Short-term bank debts represent overdraft and short-term loans with commercial banks. These bear commission at prevailing commercial rates. The Company has issued signed promissory notes to the banks under the facilities agreement.

13. SHAREHOLDERS' EQUITY

- (a) CapitalThe capital of the Company is SR 325,000,000 divided into 32,500,000 shares of SR10each, which is fully paid.
- (b) Statutory reserveIn accordance with Article 125 of the Saudi Arabian Regulations for Companies, theCompany is required to transfer at least ten percent of net income to a statutory reserve until such reserve equals fifty percent of paid-up capital. This reserve is not available for distribution.

(c) Voluntary reserve

The shareholders have decided to create a voluntary reserve by transfer of ten percent of the annual income to the reserve. The utilization of this reserve is on the discretion of the shareholders. In the current year, transfer has been made to the voluntary reserve, subject to the final approval at the Annual General Meeting (also see note 21).

(d) Foreign currency translation adjustments

Foreign currency translation adjustments comprise SADAFCO's share in foreign exchange differences arising from the translation of the foreign currency fiscal statements of the consolidated subsidiaries.

14. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the years ended 31 March comprise the following:

	2009 (SR'000)	2008 (SR'000)
Employee costs	59,320	63,797
Advertising and sales promotion	51,727	56,286
Depreciation (Note 10c)	17,303	22,103
Vehicle running and maintenance costs	6,087	6,698
Insurance	2,451	3,066
Rent	2,475	2,909
Communication	958	1,463
Other	14,343	8,494
	<u>154,664</u>	<u>164,816</u>

15. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 March comprise the following:

	2009 (SR'000)	2008 (SR'000)
Employee costs	28,677	34,380
Chairman and Audit Committee remuneration (Note 19c)	1,600	1,600
Depreciation (Note 10c)	1,116	1,590
Communication	92	97
Repairs and maintenance	578	664
Insurance	418	450
Rent	80	13
Printing and stationery	162	139
Diesel and electricity	130	129
Consultancy	5,713	6,640
Other	6,163	5,931
	<u>44,729</u>	<u>51,633</u>

16. OPERATING LEASES

SADAFCO and its subsidiaries have certain warehouses and sales depots under operating leases extended for a period of more than one year. Most of these leases are for an initial period of five years with an option to renew the leases after that date. Lease payments are negotiated annually to reflect market rates.

At 31 March, operating lease rental obligations are payable as follows:

	2009 (SR'000)	2008 (SR'000)
Not later than one year	566	781
Later than one year but not later than five years	440	764
	<u>1,006</u>	<u>1,545</u>

17. COMMITMENTS AND CONTINGENCIES

- (a) At 31 March 2009, SADAFCO and its subsidiaries have outstanding commitments for future capital expenditures amounting to SR 10,022 thousand (2008: SR 8,293 thousand).
- (b) SADAFCO has a contingent liability of SR 18,635 thousand (2008: SR 13,253 thousand) in respect of guarantees issued by the Company's bankers on behalf of its consolidated subsidiaries and affiliates, as well as for guarantees issued to the Department of Zakat and Income Tax (Note 18). The Company has also issued a corporate guarantee of SR 1,077 thousand (2008: SR 532 thousand) in favour of a bank to secure bank facilities for one of its subsidiaries.

Furthermore, SADAFCO had a contingent liability of SR 14,250 thousand (2008: SR 14,250 thousand) in respect of guarantees issued by the Company's banker on behalf of ACFAP, a subsidiary, sold during the year (see note 11(a)). Against the bank guarantees issued on behalf of this subsidiary, a sum of SR 1,525 thousand had been counter-guaranteed by other shareholders of ACFAP having a total interest of 10.7%. Pursuant to sale of investment in ACFAP and settlement of bank loan obligation, as stated in note 11(a), the Company has been released of its obligations in respect of guarantees issued by the Company's bankers on behalf of ACFAP.

- (c) At 31 March 2009, the Company had outstanding interest rate swap contracts with a notional amount of SR 100,000 thousand (2008: SR 100,000 thousand) and negative fair value of SR 5,148 thousand (2008: SR 2,000 thousand negative). The interest rate swap contracts will mature by March 2013.

18. ZAKAT

- (a) Charge for the year

Zakat charge for the years ended 31 March, comprise the following:

	2009 (SR'000)	2008 (SR'000)
Relating to SADAFCO	7,000	7,000
Relating to investment in Saudi New Zealand Milk Products Company Ltd	500	500
	<u>7,500</u>	<u>7,500</u>

18. ZAKAT (continued)

- (b) Zakat charge for the year ended 31 March relating to SADAFCO has been calculated on the Zakat base, the significant components of which are as follow:

	2009 (SR'000)	2008 (SR'000)
Capital	325,000	325,000
Adjusted net income	28,539	44,223
Adjusted reserves, provisions and others at the beginning of the year	272,116	245,501
Deduction for long-term assets	(228,860)	(250,522)
Deduction for investments	(80,069)	(46,851)
Deduction for dividend paid	(48,750)	(32,500)
	<u>267,976</u>	<u>284,851</u>

- (c) Accrued Zakat

The movement in accrued Zakat during the years ended 31 March is as follows:

	2009 (SR'000)	2008 (SR'000)
Balance at beginning of the year	14,571	13,152
Payments during the year	(8,254)	(6,081)
Charge for the year	7,500	7,500
	<u>13,817</u>	<u>14,571</u>

- (d) Status of zakat assessments

SADAFCO's zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) for the years ended up to 31 December 1996. Final assessments for subsequent fiscal years up to 31 March 2002 have been received with total additional Zakat liability of SR 8,862 thousand and for the fiscal years of 31 March 2003 and 2004 with total additional Zakat liability of SR 6,187 thousand. The nature of major items disallowed or added to the Zakat base by DZIT are non-current receivables and investment related balances. SADAFCO has appealed against such assessments.

The Higher Appeal Committee (HAC) has issued its decision with respect to the Company's appeal against Preliminary Appeal Committee (PAC) decision for the years 1997 through 31 March 2002. The Company has filed an appeal against HAC decision with the Board of Grievances (BOG). The revised additional zakat liability is SR 8,254 thousand as per HAC decision.

PAC has recently issued its decision in respect of 2003 and 2004 appeal. The company has filed an appeal against PAC decision. The revised additional zakat liability is SR 5,382 thousand as per PAC decision.

The shortfall in the provision for the fiscal years up to 31 March 2002 amounts to SR 2,677 thousand and the shortfall in the provision for the fiscal years of 31 March, 2003 and 2004 amounts to SR 5,142 thousand. The management believes that the ultimate appeal decision for the disallowed items shall be in the favour of the Company.

SADAFCO has obtained final Zakat certificate up to the fiscal years ended 31 March 2002 by providing a bank guarantee to the DZIT, amounting to SR 7,765 thousand for the Zakat assessments relating to fiscal years 1997 through 2002 (see note 17b).

19. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) Related party transactions mainly represent purchases and sales of goods and services and other transactions which are undertaken at mutually agreed terms and approved by management.
- (b) Related party transactions for the years ended 31 March and balances arising there from are described as under:

Transactions with	Nature of Transactions	Amount of Transactions		Closing balance Receivable/(Payable)	
		2009	2008	2009	2008
		(SR '000)	(SR '000)	(SR '000)	(SR '000)
Affiliates/Jointly controlled entity	Purchase of goods and Services	(41,388)	(53,276)	(8,892)	(7,278)
	Net settlement against purchase of good and services	(39,774)	-	-	-
Affiliates	Advance payment Accounts	(556)	(5,386)	75	631
Affiliates	Current account	(843)	(4,581)	1,079	1,922
	Provision for doubtful accounts	-	2,822	-	-
Affiliates	Current account payable	44	841	-	(44)
Affiliates	Advances & other Receivables	-	(3,132)	-	-
Affiliates	Sale of a subsidiary	29,232	-	21,091	-
	Instalment received in respect of above sale	(8,141)	-	-	-
Affiliates	Sale of land (see note 10 (e))	-	(20,000)	17,000	17,000
Affiliates	Deposit with Fund Manager, net	(35,043)	(36,159)	1,125	36,168
	Trading/ available-for-sale investment (see note below)				
	Investment made	24,120	13,502	19,567	27,004
	Trading/ available-for-sale investment Unrealised (loss)/gain on Mutual Fund (see note below)	(17,482)	11,039	-	-
	Investment sold	(14,075)	(33,742)		

Investments which were reclassified from trading to available for sale are managed by an affiliate professional fund manager (see note 7(b)).

- (c) Board of Directors' remuneration, which are calculated in accordance with Article 35-4 of the Company's Articles of Association, if any, are considered as appropriation and are shown in the statement of changes in shareholders' equity.

Directors' attendance fee, remunerations of Chairman for their services in day-to-day operations and of the Audit Committee members are charged to expenses and are included under general and administrative expenses for the year ended 31 March 2009 and amounted to SR 1,600 thousand (2008: 1,600 thousand) (note 15).

20. EARNINGS PER SHARE

Earnings per share on operating income are calculated by dividing the operating income by the weighted average number of ordinary shares in issue during the year.

Earnings per share on net income are calculated by dividing the net income by the weighted average number of ordinary shares in issue during the year.

Earnings per share attributable to equity holders of the parent are calculated by dividing the net income attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares outstanding during the year ended 31 March 2009 was 32.5 million (31 March 2008: 32.5 million) shares of SR 10 each. The calculation of diluted earnings per share is not applicable to the Company.

Earnings per share from the components of net income attributable to equity holders of the parent, other than operating income, amounts to negative SR 1.07 (2008: negative SR 0.10).

21. DIVIDEND

In the Annual General Meeting of the Company held on 13 July 2008, the shareholders authorised a final dividend of Saudi Riyals 1.5 (2007: Saudi Riyal 1) per share amounting to SR 48,750 thousand to be appropriated from the retained earnings. For 2007, SR 32,500 thousand was appropriated from the voluntary reserve.

22. RISK MANAGEMENT

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of the fiscal instruments. The Company is subject to interest rate risk on its interest bearing assets and liabilities, including bank deposits and short-term bank debts.

The management limits the Company's interest rate risk by monitoring changes in interest rates in the currencies in which its interest bearing assets and liabilities are denominated and uses interest rate swaps to strategically hedge its risk.

Deposits with fund managers (note 3) are interest free. The effective interest rate on the short term bank debts is 2.943%.

Credit risk

Credit risk is the risk that one party to a fiscal instrument will fail to discharge an obligation and cause the other party to incur a fiscal loss. The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. At the balance sheet date, no significant concentrations of credit risk were identified by management (also see note 4).

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with fiscal liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The Company limits its liquidity risk by ensuring that sufficient bank facilities are available.

The Company's fiscal liabilities primarily consist of short term bank debts, accounts payable, payable to affiliates and shareholders, accruals and other liabilities and unpaid dividend. All these fiscal liabilities are expected to be settled within 12 months from the date of the balance sheet and the Company expects to have adequate liquid funds to do so.

Currency risk

Currency risk is the risk that value of a fiscal instrument will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars and Egyptian Pounds during the year. The Company seeks to limit its currency risk by monitoring outstanding exposure.

Trade accounts payable include an amount of SR 4,168 thousand due in foreign currencies, mainly in US Dollars.

23. KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of accounts receivable

An estimate of the collectible amount of trade accounts receivable 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 balance sheet date, gross accounts receivable were SR 182,083 thousand (2008: SR 151,263 thousand), and the provision for doubtful debts was SR 27,041 thousand (2008: SR 24,514 thousand) (note 4). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement of that period.

Impairment of inventories

Inventories are held 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 is applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the balance sheet date, gross inventory balance was SR 166,650 thousand (2008: SR 196,574 thousand), and the provision against inventory was SR 7,826 thousand (2008: SR 7,813 thousand).

24. FAIR VALUES OF FISCAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Company's fiscal assets consist of cash and bank balances, available-for-sale investments and receivables, its fiscal liabilities consist of short term bank debts, accounts payable, payable to affiliates and shareholders, other liabilities and unpaid dividend, and its derivatives consist of interest rate swaps. The fair values of fiscal instruments are not materially different from their carrying values.

25. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year's presentation.



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