

SADAFCO



سدا فكو

Saudia Dairy and Foodstuff Company
Annual Report 2009 – 2010

غذاء متكامل ... طعم لا يضاهي



Superior Nutrition...Supreme Taste



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

Our Vision

To be the “Brand of Choice”

Our 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.

Our Values

Integrity

Respect for All

Passion

Quality

Chairman's Message

It is my delight to present to you through this annual report the latest developments of SADAFCO; the fiscal year 2009/2010 included many events that I am pleased to share with you through this report on behalf of the Board & Executive Management.

The sales team in the current year and for the first time through SADAFCO history crossed the billion Saudi Riyals sales and achieved SAR 1.023 billion, with an operating profit of SAR 238 millions and SAR 127 million net profit, which included SAR 109 millions as profit generated from the sale of the Company's investments in the Saudi New Zealand Milk Products Co.

The achieved results were based on collaborative efforts by every department through positive contribution. At the operation & logistics levels, the supply chain department through its relationships with the suppliers managed to procure the required raw materials at controlled costs in order to support the profit margins, and through improvement of performance in the factories, the operation department has increased the production to meet the market demands and consumers' needs.

I am also pleased to inform you that there is a separation in the production lines and we have a line of production only for women in order to give them an opportunity to participate in the economic & industry cycles. Both males and females production lines are currently performing excellently.

Within the current year the HR department and through hiring specialized talents and taking into account employees' opinions, has achieved a tangible progress that positively reflected on the employees which is defined through the recently conducted employee satisfactory survey.

All the above mentioned achievements wouldn't have happened, if not supported by the marketing department efforts through supporting the new products that have been launched recently in addition to the sales team efforts and their everlasting activity directed to deliver the Saudia Products to all consumers through Arab World.

All of such efforts are supported by the confidence & loyalty of the shareholders to whom we extend our thanks & appreciations.

Hamad S. Al Ahmed

Chairman

CEO Message

SADAFCO 2009-2010 was exceptional at all levels and in all aspects:

1. A top line record, we crossed SAR 1 billion
2. A profit record on operational as well as net bottom line: SAR 203 Million.

Our mission is becoming more alive and we are continuously, “developing, producing and marketing a range of food propositions for consumers of all age groups and creating maximum shareholder value through team work”.

Investments in the market place, in operations and on the organizational front are paying off. We are continuously strengthening our Saudia branded backbone:

A new ERP system has been put in place, strengthening our MIS systems and reporting

A new generation of Hand Held technology with stronger “reporting and analysis” tools

In the production we maintained quality levels and reached higher efficiencies

In logistics we improved on relevant service levels whilst maintaining a handle on the cost drivers

On the people front a lot is happening: a positive change in mindset is taking place and we are welcoming new colleagues, required to service the demands of the growing operations.

A very important milestone was the start of female operators in the factory. Thanks to the help from the Ministry of Labour and other industries we can now proudly say that we employ successfully 30 females in our factory.

This has resulted in maintaining the lead position in (UHT) milk and Tomato Paste. We continue to focus on achieving leadership positions in other categories, by investing in our brand and bringing in new added value propositions to service consumer needs.

Earlier launched products are performing to satisfaction. During the year we witnessed the launch of Jar Cream cheese and Cheddar cheese in tins, Growing Up Milk “GUM” under Saudia Junior, a fortified milk for kids. Today we reach millions of consumers on a daily basis through a variety of SADAFCO’s products whereby Taste and Quality remain distinctive elements.

For the current year we again expect a number of new propositions to be made available to our consumers.

At the same time it has been recognized that we need to expand our production base in order to achieve our growth ambitions both on the short and long term:

A plan is being developed to establish a new, integrated under one roof production, warehousing and HO facility, at a new location.

The loyalty and support we receive from our consumers stimulates us to continuously find new ways to make them happy.

To that extent I thank all colleagues within the company, the shareholders for their support and especially the BOD in giving us so much confidence.

Wout Matthijs

CEO

Executive Management



Mohamed Attar
Chief Marketing Officer



Khalid Bakhsh
Chief Financial Officer



Saad Al-Zahrani
Chief HR & Corporate Affairs Officer



Wout Matthijs
Chief Executive Officer



Aidan Tynan
Chief Sales & Trade
Marketing Officer



Steve Satherley
Chief Operations Officer



Ziyad Kabli
Chief Supply Chain Officer

Company Departments

The Company

Sales and Marketing

Supply Chain and Logistic

Manufacturing Operations

HR and Corporate Affair

SADAFCO سدا فکو



Brief About The Company

The Saudia Dairy and Foodstuff Company SADFACO was established in 1976 and commenced production in Jeddah in 1977 through its production facility in the industrial zone. Since its establishment and its more than 30 years of operations SADFACO witnessed a lot of industrial and economic changes; yet it maintains its leading position in the dairy business.

Through the adoption of its vision “To become the brand of choice” SADFACO brings a variety of products to the food basket, amongst others, long life milk, ice cream, drinks; tomato paste, Ketchup and breakfast cream; besides the products which were launched last year like triangle cheese and milk powder. This year witnessed the launch of cheese jars and cheddar cheese as well as the growing up milk (a fortified milk for kids) in two formats: powder and liquid.

The launch of new products is in line with SADFACO’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”.

SADFACO strives to maintain and expand its leading position in the dairy and foodstuff segments by meeting consumer needs via its diverse portfolio and reach throughout the Kingdom and Arab world.

SADFACO is committed to ensure that the business remains operational within the industry, while mitigating potential risks via the continuous improvement, know-how and expertise within the company.



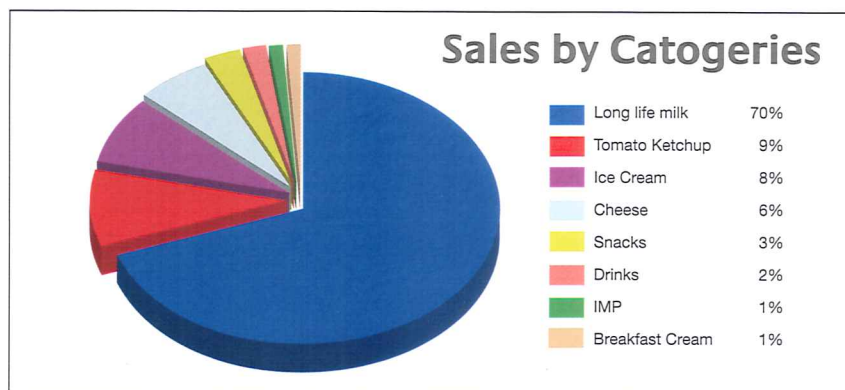


Sales and Marketing

SADAFCO has crossed the milestone of SAR 1 billion this year, achieving net sales of SAR 1.023 Billion, an increase of 11% vs. last year. The Marketing function continued to play its role in bringing in impactful promotions/activities complementing the Sales team's efficiency improvement efforts to achieve the desired results. Success is attributed to an integrated approach by the Marketing & Sales Teams, making the optimum use of the available resources, with timely promotional activities, critical improvements in infrastructure and penetration levels endorsed by the strong "Saudia" Brand.

SADAFCO continues to maintain its dominant position in the UHT long life milk and Tomato Paste categories with 53% and 35% shares respectively. With additional focus and efforts on Ice Cream, market share grew by 2 points to 16%.

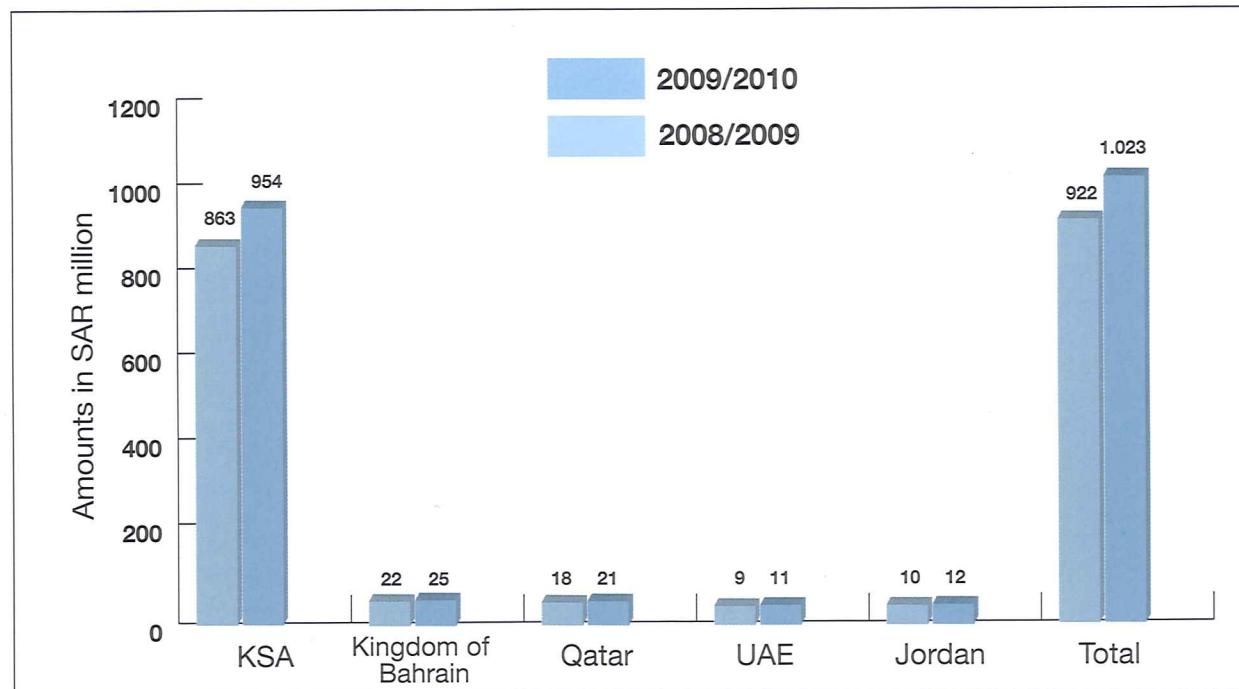
The performance of other categories including the new innovations (Ketchup, Cream, Instant Milk Powder, Processed Cheese..) are on track and continue to improve their presence in the market within their respective segments.



Sales and Marketing (continued)

The company sales covered three main areas: Kingdom of Saudi Arabia, the Gulf area and other export sales in the Arab World. They are divided as follows:

| (Amounts in SAR million) | 2009/2010 | 2008/2009 | Changes % |
|---------------------------|-----------|-----------|-----------|
| Kingdom of Saudi Arabia | 954 | 863 | 11 |
| Kingdom of Bahrain | 25 | 22 | 16 |
| Qatar | 21 | 18 | 14 |
| United Arab of Emirates | 11 | 9 | 20 |
| Jordan | 12 | 10 | 24 |
| Total | 1,023 | 922 | 11 |



Supply Chain and Logistics

The annual business plan of the supply chain team has focused on two areas:

- Supporting the Sales Operations Growth by:
 - a. Providing 40 new trucks
 - b. 910 freezers for ice-cream
 - c. 1,050 chillers
- Controlling the costs of raw materials.

The above were achieved due to the efforts exerted by the team and support received from the Company's management.



Manufacturing Operations:

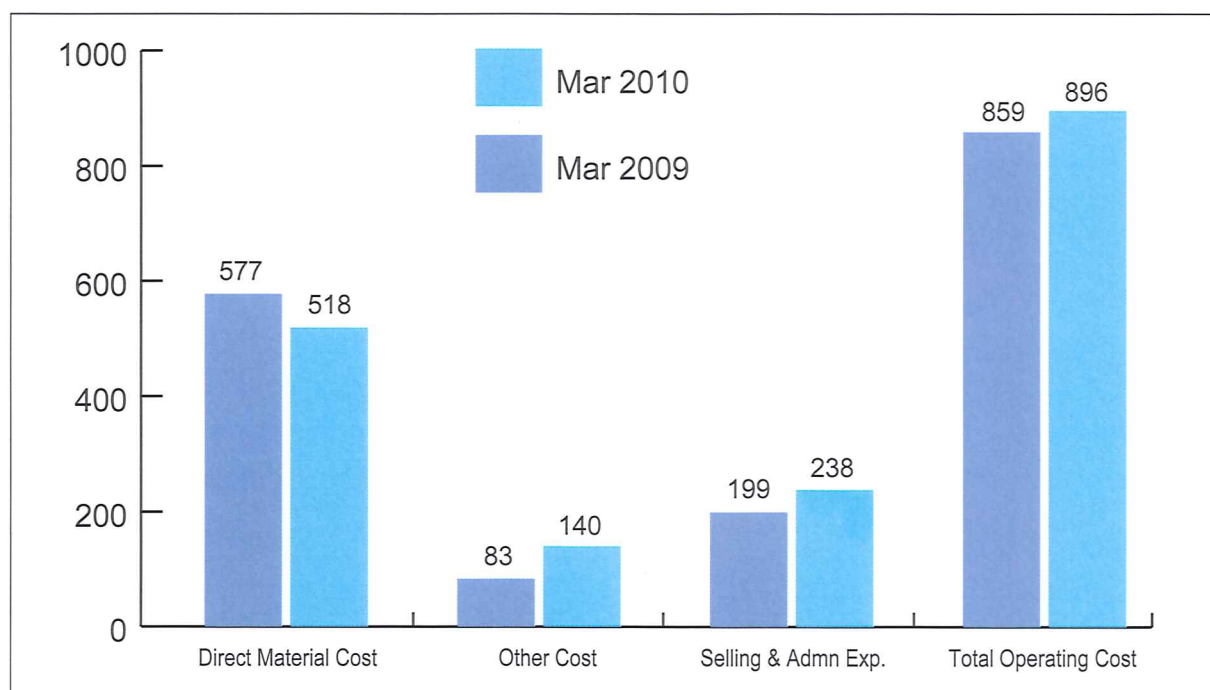
Manufacturing operations have focused on raising the overall performance of production facilities through the following initiatives:

- Continuous improvement program focused on people, materials, machines and methods to increase flexibility and factory output.
- Improved customer service with more consistent product availability.
- Recruitment of key personnel and flattening the organization structure to improve communication and people engagement.
- Raising quality standards
- Installation of new capital equipment, including: 2 new aseptic tanks, new tomato paste filling line, robotic palletiser and new laboratory for both factory analysis and NPD.
- Reducing the cost of the conversion process.
- Employment of 30 ladies for the snacks department.



Financial Results

The year 2009/2010 is considered a turning point in the history of SADAFCO in terms of sales growth and breaking the billion riyals sales barrier, in addition to what has been achieved as operating profits and other income from the sale of some investments. The table below shows the changes in operational cost compared to last year:



SADAFCO subsidiaries are as follows:

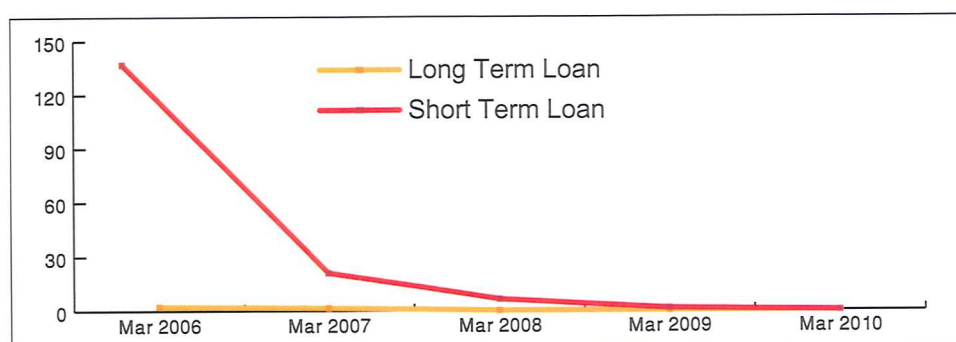
| Name of Subsidiary | Country of Incorporation | Business Activity | Capital |
|----------------------------------------|--------------------------|----------------------|---------------|
| Sadafco Foodstuff Company LLC. | UAE | Sales & Distribution | AED 300,000 |
| Sadafco Bahrain Company, WLL. | Bahrain | Sales & Distribution | BD 20,000 |
| Sadafco Jordan Foodstuff Company LLC. | Jordan | Sales & Distribution | JD 250,000 |
| Sadafco Qatar | Qatar | Sales & Distribution | QR 1,500,000 |
| National Buildings Real Estate Company | KSA | Real Estate | SAR 2,000,000 |
| United Gulfers Logistics Company | KSA | Real Estate | SAR 2,000,000 |
| United Sight Holding Company | KSA | Holding Company | SAR 2,000,000 |

Financial Results (Continued)

The related party transactions with which SADAFCO board of directors and shareholders are either directly or in-directly related are summarized below (Amounts in Thousands):

| Company Name | Country of Incorporation | Business Activity | Transaction Amount | Closing Balance |
|-----------------------------------|--------------------------|----------------------------------|--------------------|-----------------|
| Kuwait Asset Management Company | Kuwait | Sales of investment | -26,947 | - |
| Saudi New Zealand Milk Powder Co. | KSA | Manufacturing of cheese | -25,806 | - |
| Saudi Pearl Insurance Company | Bahrain | Insurance Service | -5,653 | -580 |
| Kuwait Real Estate Company | KSA | Sales of Land | -17,000 | - |
| Kuwait Real Estate Company | KSA | Sales of Land | -3,000 | -3,000 |
| Arab Company for Animal Produce | Egypt | Installment for sales of company | -5,252 | 15,839 |

As SADAFCO enjoys a good liquidity position by having surplus cash, it does not borrow from banks, i.e. there is no payment for banks as repayment of debts. There is one obligation that has been settled for SADAFCO Jordan worth of SAR 1.2 millions.



| (Amounts in SAR million) | Mar 2010 | Mar 2009 | Mar 2008 | Mar 2007 | Mar 2006 |
|-------------------------------------------------|----------|----------|----------|----------|----------|
| Net cash provided by operating activities | 195 | 57 | 2.9 | 205 | 68 |
| Net cash from/ (used in) investing activities | 128 | -44 | 7.6 | -44 | 60 |
| Net cash used in financing activities | -50 | -49 | -34 | -117 | -97 |
| Cash & cash equivalent at beginning of the year | 50 | 83 | 105 | 60 | 29 |
| Effect of exchange rate fluctuations | 0.4 | 2.9 | 1.8 | - | - |
| Cash & cash equivalent at the end of the year | 323 | 50 | 83 | 105 | 60 |

Financial Results (Continued)

Total government payments were SAR 33 million, of which SAR 12 million to Zakat, SAR 17 million to customs and SAR 4 million to GOSI.

By considering overall company performance during the year 2009/2010 and comparing it to the previous years, we witnessed an overall improvement in the financial results.

| (Amounts in SAR million) | Mar 2010 | Mar 2009 | Mar 2008 | Mar 2007 | Mar 2006 |
|---------------------------|----------|----------|----------|----------|----------|
| Working capital | 449 | 249 | 262 | 189 | 133 |
| Fixed asset | 239 | 232 | 257 | 311 | 347 |
| Total debts | 0 | 1.2 | 6.3 | 22 | 139 |
| End of service | 69 | 63 | 61 | 61 | 73 |
| Share holders equity | 667 | 503 | 515 | 492 | 455 |
| Total assets | 964 | 719 | 764 | 732 | 770 |

The net profit has increased substantially as a result of increased operational performance and extraordinary income from the sale of investment in Saudi New Zealand Milk Product Company.

| (Amounts in SAR million) | Mar 2010 | Mar 2009 | Mar 2008 | Mar 2007 | Mar 2006 |
|---------------------------|----------|----------|----------|----------|----------|
| Net sales | 1.023 | 922 | 871 | 759 | 825 |
| Cost of sales | -657 | -659 | -593 | -473 | -551 |
| Gross profit | 365 | 263 | 278 | 286 | 273 |
| Other revenue | 92 | -26 | 5 | -1 | -1 |
| Selling & distribution | -178 | -155 | -165 | -186 | -174 |
| General & Admin. | -60 | -45 | -52 | -55 | -57 |
| Financials & bank charges | -3 | -1 | -1 | -5 | -11 |
| Zakat | -13 | -8 | -8 | -6 | -5 |
| Net Profit (Loss) | 203 | 28 | 57 | 33 | -25 |

All the financial data and statements are reviewed as per the rules and regulations and the auditor report has been issued without qualification, which indicates that the internal control procedures that SADAFCO adopts are effective.

The company also holds on all the accounting records and the accounting procedures are in accordance with the SOCPA standards.

Human Resources:

HR department continues the development of plans for training of talents. During the year 2009/2010 a total of 240 FTE's (full time employees) were recruited.

The year 2009/2010 witnessed several accomplishments for the HR department, amongst which were:

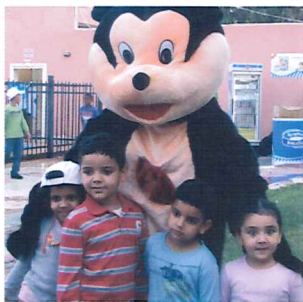
1. SADAFCO participated in a Compensation and Benefits market survey in order to remain competitive in the relevant industry; as a result of the survey appropriate adjustments were implemented.
2. SADAFCO maintains 30% Saudization in line with Ministry of Labor requirements
3. Structural support in the recruitment of female production workforce.



Public Relations & Social Responsibility:

SADAFCO believes it has a social role to play beyond investment in the economic and industrial activities. In that regard, SADAFCO participated in various social happening and received several recognitions and awards. Some of the activities were:

1. The sponsorship of the pledge of elegance for King Abdullah
2. The sponsorship of Discover your country
3. Support to JISH (Jeddah Institute for Speech and Hearing)
4. Support to the families and victims of the Jeddah floods
5. Provided free products to various charity organizations
6. Sponsored the training campaign conducted by the ministry of labor
7. Participation in milk day in schools



Disclosure and Transparency:

SADAFCO adheres to the rules and regulations set by CMA in that regard and tries to provide the best information and meet the highest standard of transparency to the shareholders through Tadawul website being the prime source of information to give all the investor equal opportunity. SADAFCO also apply the rules to avoid any conflict of interest in any contractual agreement, where by there were no:

1. Agreement with any party where any material interest is in favor to any BOD member or senior management
2. Concessions by one of the members of the Board or executive management of any salary or compensation or allowances, as well as for profits from shareholders
3. Investment made to the favor of any staff members



Corporate Affairs (Continued)

Shareholders Data:

There was no material change in the year ended 31/03/2010 in the major ownership of SADAFCO, which required any disclosure as per the CMA rules and regulations. The major shareholders are:

| # | Name | Ownership |
|---|-----------------------------|-----------|
| 1 | United Industries Company | 30.1% |
| 2 | Alsamh Trading Company Ltd. | 11.6% |
| 3 | Global Investment House | 8.9% |
| | Total | 50.6% |

The board and the committees:

The board of SADAFCO is composed of the following:

| # | Name | Role | Classification |
|---|-----------------------------|---------------|----------------|
| 1 | Sheikh Hamad Sabbah AlAhmad | Chairman | Non Executive |
| 2 | Faick Hussain AlSaleh | Vice Chairman | Independent |
| 3 | Faisal Hamad AlAyyar | Member | Non Executive |
| 4 | Abdullah Yaquob Bishara | Member | Non Executive |
| 5 | Essa Khaled Essa AlSaleh | Member | Non Executive |
| 6 | Mussad Abdullah AlNassar | Member | Executive |
| 7 | Sulaiman Saud Aljar Allah | Member | Independent |

The board has the following meetings and resolutions during the year 2009/2010

| # | Name | By circulation | Attended | Total |
|---|-----------------------------|----------------|----------|-------|
| 1 | Sheikh Hamad Sabbah AlAhmad | 13 | - | 13 |
| 2 | Faick Hussain AlSaleh | 13 | 2 | 15 |
| 3 | Faisal Hamad AlAyyar | 13 | 1 | 14 |
| 4 | Abdullah Yaquob Bishara | 13 | 1 | 14 |
| 5 | Essa Khaled Essa AlSaleh | 13 | 1 | 14 |
| 6 | Mussad Abdullah AlNassar | 13 | 2 | 15 |
| 7 | Sulaiman Saud Aljar Allah | 13 | 2 | 15 |

Internal Audit:

It is a committee of the board and acts to ensure the full compliance of the internal audit policies and procedure.

The committee met 3 times during the year and it is composed of the following members:

1. Faisal Hamad AlAyyar (Chairman)
2. Faick Hussein AlSaleh (Member)
3. Essa Khaled Essa AlSaleh (Member)

As per the ministerial resolution number 266/Q issued from Ministry of Commerce and Industry dated 08/08/1429, the external auditor will be appointed by the annual general assembly.

BOD Remuneration:

As per the set rules and regulations, the board receives a bonus of SAR 1.4 million and SAR 1.6 million against their supervisory role expenses (traveling, hotels and meetings) and internal audit committee fees.

Executive BOD member and Executive management benefits:

The total sum paid to the Executive BOD member amounted to SAR 810,388. The senior management received a total amount of SAR 8,942,724 including the CEO and CFO. These amounts include salaries, incentives, bonus and allowances.

Corporate Affairs (Continued)

BOD member and Executive management ownership in SADAFCO as of 31/03/2010:

| # | Name | Title | Number of Shares |
|----|-----------------------------|------------------------------------------|-----------------------------|
| 1 | Sheikh Hamad Sabbah AlAhmad | Chairman Non Executive | Representative of UIC* |
| 2 | Faick Hussain AlSaleh | Vice Chairman Independent | 1,000 |
| 3 | Faisal Hamad AlAyyar | Member Non Executive | Representative of GUB* |
| 4 | Abdullah Yaquob Bishara | Member Non Executive | Representative of KIPCO* |
| 5 | Essa Khaled Essa AlSaleh | Member Non Executive | Representative of UIC* |
| 6 | Mussad Abdullah AlNassar | Member - Executive | 11,000 |
| 7 | Sulaiman Saud Aljar Allah | Member - Independent | 1,000 |
| 8 | Waltherus Matthijs | Chief Executive Officer | 3,000 |
| 9 | Khalid Abdulrahman Bakhsh | Chief Financial Officer | - |
| 10 | Mohamed Jameel Attar | Chief Marketing Officer | - |
| 11 | Ziayd Abdulaziz Kabli | Chief Supply Chain Officer | - |
| 12 | Saad Saeed Al-Zahrani | Chief HR & Corporate Affairs Officer | - |
| 13 | Aidan Tynan | Chief Sales & Trade Marketing Officer | - |
| 14 | Steve Satherley | Chief Operation Officer | - |

*UIC – United Industries Company

*KIPCO – Kuwait Investment Project Company

*GUB – Gulf United Bank

Dividend Distribution:

The board decided on the dividend payment based on the net income and available liquidity. After the third quarter the board approved a SAR 1.5 dividend and proposed another SAR 1.5 dividend per share to be approved by the AGM, bringing the total dividend for the year to SAR 3 per share.

Closing:

The board would like to thank all the shareholders and consumers for their support and trust in SADAFCO and our appreciation is also extended to all company employees for their efforts that resulted in success of the company.

Financial Statment

Saudia Dairy & Foodstuff Company (SADAFCO)
(Saudi Joint Stock Company)
and Subsidiaries

Consolidated Financial Statements

31 March 2010

with

Independent Auditors' Report

 ERNST & YOUNG

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

 KPMG

Al Fozan & Al Sadhan
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

The Shareholders
Saudia Dairy & Foodstuff Company (SADAFCO)
(Saudi joint stock company)
Jeddah, Kingdom of Saudi Arabia.

Scope of audit:

We have audited the consolidated balance sheet of Saudia Dairy & Foodstuff Company (SADAFCO) (“the Company”) and its subsidiaries (“the Group”) at 31 March 2010 and the related consolidated statements of income, cash flows and changes in shareholders’ equity for the year then ended and the accompanying notes 1 to 25 which form an integral part of these consolidated financial statements. These consolidated financial 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. The consolidated financial statements for the corresponding year ended 31 March 2009 were audited by Ernst & Young and another auditor, whose report dated 16 May 2009 expressed an unqualified opinion on such consolidated financial statements. 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 financial statements.

Unqualified opinion:

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

1. Present fairly in all material respects the consolidated financial position of Saudia Dairy & Foodstuff Company (SADAFCO) and its subsidiaries at 31 March 2010 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 in so far as they affect the preparation and presentation of the consolidated financial statements.

DRAFT

Ernst & Young:



Ahmed I. Reda
Certified Public Accountant
License No. 356



KPMG Al Fozan & Al Sadhan:



Tareq Al Sadhan
Certified Public Accountant
Registration No. 352



9Jumada’Il 1431H
23 May 2010

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As at 31 March, 2010

| ASSETS | Note | 2010 (SR'000) | 2009 (SR'000) |
|---------------------------------------------------------------|-------------|--------------------------------|--------------------------------|
| Current assets: | | | |
| Cash and cash equivalents | 3 | 323,267 | 49,870 |
| Accounts receivable | 4 | 170,275 | 155,042 |
| Deposits and prepayments | 5 | 15,914 | 21,943 |
| Inventories | 6 | 149,055 | 158,824 |
| | | 658,511 | 385,679 |
| Assets relating to the subsidiary held for disposal | 11 | 9,911 | 13,559 |
| Total current assets | | 668,422 | 399,238 |
| Non-current assets | | | |
| Available-for-sale investments | 7 | 56,428 | 63,175 |
| Other investments | 8a | 243 | 23,868 |
| Intangible assets | 9 | - | 709 |
| Property, plant and equipment | 10 | 239,036 | 232,341 |
| Total non-current assets | | 295,707 | 320,093 |
| Total assets | | 964,129 | 719,331 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Short-term bank debts | 12 | - | 1,243 |
| Accounts payable | | 74,397 | 41,529 |
| Payable to affiliates and shareholders | 19 | 5,346 | 8,892 |
| Accruals and other liabilities | | 113,321 | 70,789 |
| Accrued Zakat | 18 | 16,305 | 13,817 |
| Unpaid dividend | | 622 | 726 |
| | | 209,991 | 136,996 |
| Liabilities relating to a subsidiary held for disposal | 11 | 18,435 | 16,872 |
| Total current liabilities | | 228,426 | 153,868 |
| Non-current liabilities | | | |
| Employees' end of service benefits | | 69,174 | 62,838 |
| Total non-current liabilities | | 69,174 | 62,838 |
| Equity: | | | |
| Parent shareholders' equity: | | | |
| Capital | 13 | 325,000 | 325,000 |
| Statutory reserve | 13 | 140,744 | 120,421 |
| Voluntary reserve | 13 | 49,938 | 29,615 |
| Foreign currency translation adjustments | | (1,607) | (1,979) |
| Unrealised gain on available-for-sale investment | 7 | 15,587 | 4,761 |
| Retained earnings | | 136,908 | 24,476 |
| Parent shareholders' equity | | 666,570 | 502,294 |
| Minority interest | | (41) | 331 |
| Total equity | | 666,529 | 502,625 |
| Total liabilities and equity | | 964,129 | 719,331 |

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

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 March, 2010

| | Note | 2010 (SR'000) | 2009 (SR'000) |
|-----------------------------------------------------------------------------------------------|------|------------------|------------------|
| Net sales | | 1,022,527 | 922,274 |
| Cost of sales | | <u>(657,196)</u> | <u>(659,687)</u> |
| Gross profit | | 365,331 | 262,587 |
| Expenses: | | | |
| Selling and distribution | 14 | <u>(178,381)</u> | <u>(154,664)</u> |
| General and administrative | 15 | <u>(60,080)</u> | <u>(44,729)</u> |
| Total expenses | | (238,461) | (199,393) |
| Operating income | | <u>126,870</u> | <u>63,194</u> |
| Unrealised loss on trading investment | | - | (2,354) |
| Other (expense)/income – net | | <u>(4,441)</u> | 111 |
| Financial charges – net | | <u>(3,012)</u> | <u>(1,456)</u> |
| Gain on sale of property, plant and equipment | | <u>2,577</u> | 2,662 |
| Gain on sale of available-for-sale investments | 7a | <u>9,374</u> | - |
| Gain on sale of other investments | 8e | <u>109,359</u> | - |
| Provision for non -temporary decline in the value of available-for-sale investments | 7b | - | (26,296) |
| Receivable written off | 10e | <u>(17,000)</u> | - |
| Provision for impairment of property, plant and equipment | 10e | <u>(4,645)</u> | - |
| Net income from continuing operations before Zakat and minority interests | | <u>219,082</u> | <u>35,861</u> |
| Discontinuing operations: | | | |
| Net (loss)/income for the year from discontinuing operations | 11 | <u>(3,088)</u> | <u>39</u> |
| Net income before Zakat and minority interest | | <u>215,994</u> | <u>35,900</u> |
| Zakat charge for the year | 18a | <u>(12,976)</u> | <u>(7,500)</u> |
| Net income for the year after Zakat | | <u>203,018</u> | <u>28,400</u> |
| Attributable to: | | | |
| Equity shareholders of the Parent | | <u>203,228</u> | <u>28,311</u> |
| Minority interests | | <u>(210)</u> | <u>89</u> |
| Net income for the year | | <u>203,018</u> | <u>28,400</u> |
| Earnings per share on operating income – SR (Note 20) | | <u>3.904</u> | <u>1.944</u> |
| Earnings per share on net income after Zakat – SR (Note 20) | | <u>6.247</u> | <u>0.874</u> |
| Earnings per share attributable to equity shareholders of the Parent - SR (Note 20) | | <u>6.253</u> | <u>0.871</u> |

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

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
CONSOLIDATED CASH FLOW
As at 31 March, 2010

| | 2010 (SR'000) | 2009 (SR'000) |
|--------------------------------------------------------------------------------|------------------|------------------|
| Operating activities: | | |
| Net income for the year attributable to equity shareholders of the Parent | 203,228 | 28,311 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation | 35,432 | 37,838 |
| Amortization and write-off of intangible assets | 709 | 709 |
| Minority interests | (372) | (385) |
| Gain on disposal of property, plant and equipment | (2,577) | (2,662) |
| Unrealised loss on trading investment | - | 2,354 |
| Gain on sale of available-for-sale investments | (9,374) | - |
| Investment income - net of adjustments | (2,168) | (2,987) |
| Gain/loss on sale of other investments | (109,359) | - |
| Provision for non-temporary decline in value of available-for-sale investments | - | 26,296 |
| Receivable written off | 17,000 | - |
| Provision for impairment on property, plant and equipment | 4,645 | - |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | (32,233) | (19,092) |
| Decrease/(increase) in deposits and prepayments | 6,029 | (7,314) |
| Decrease in inventories | 9,769 | 28,363 |
| Increase/(decrease) in accounts payable | 32,868 | (46,580) |
| Decrease)/increase in payable to affiliates and shareholders | (3,546) | 1,593 |
| Increase in accrued Zakat, accruals and other liabilities | 38,871 | 8,767 |
| Employees' end of service benefits – net | 6,336 | 2,288 |
| Total adjustments | (7,970) | 29,188 |
| Net cash from operating activities | 195,258 | 57,499 |
| Investing activities: | | |
| Net movement in investments | 2,466 | (23,925) |
| Dividend received | - | 11,318 |
| Movement in long-term investment | - | (10,900) |
| Sales proceeds relating to available-for-sale investments | 26,947 | - |
| Sale proceeds from other long-term investments (net of Zakat) | 132,686 | - |
| Changes in net assets directly associated with a subsidiary held for disposal | 5,211 | 2,898 |
| Sale proceeds of property, plant and equipment | 2,611 | 5,341 |
| Purchases of property, plant and equipment | (42,161) | (29,102) |
| Net cash from /(used in) investing activities | 127,760 | (44,370) |
| Financing activities: | | |
| Net movement in short-term debts | (1,243) | (326) |
| Dividend paid | (48,750) | (48,750) |
| Net cash used in financing activities | (49,993) | (49,076) |
| Net increase/(decrease) in cash and cash equivalents | 273,025 | (35,947) |
| Effect of exchange rate fluctuations on cash and cash equivalents | 372 | 2,986 |
| Cash and cash equivalents at the beginning of the year | 49,870 | 82,831 |
| Cash and cash equivalents at the end of the year | 323,267 | 49,870 |

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2010

| | Attributable to equity shareholders of the Parent | | | | | | | Total equity (SR'000) | |
|---------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|----------------------------|----------------------------|---------------------------------------------------|-----------------------------------------------------------|----------------------------|----------------|-----------------------|----------------------------|
| | Capital (SR'000) | Statutory Reserve (SR'000) | Voluntary Reserve (SR'000) | Foreign currency translation adjustments (SR'000) | Unrealised gain on investment available-for-sale (SR'000) | Retained earnings (SR'000) | Total (SR'000) | | Minority interest (SR'000) |
| Balance at 1 April 2008 | 325,000 | 117,590 | 26,784 | (6,984) | 492 | 51,977 | 514,859 | 420 | 515,279 |
| Net income for the year | - | - | - | - | - | 28,311 | 28,311 | 89 | 28,400 |
| Transfer to reserves | - | 2,831 | 2,831 | - | - | (5,662) | - | - | - |
| Dividend declared (Note 21) | - | - | - | - | - | (48,750) | (48,750) | - | (48,750) |
| Net changes in fair value of available-for-sale investments (Note 7) | - | - | - | - | (22,027) | - | (22,027) | - | (22,027) |
| Transfer to consolidated statement of income: provision for non-temporary decline in value of available-for-sale investments (Note 7) | - | - | - | - | 26,296 | - | 26,296 | - | 26,296 |
| Board of directors' remuneration (Note 19 (c)) | - | - | - | - | - | (1,400) | (1,400) | - | (1,400) |
| Foreign currency translation adjustments | - | - | - | 5,005 | - | - | 5,005 | (178) | 4,827 |
| Balance at 31 March 2009 | 325,000 | 120,421 | 29,615 | (1,979) | 4,761 | 24,476 | 502,294 | 331 | 502,625 |
| Net income for the year | - | - | - | - | - | 203,228 | 203,228 | (210) | 203,018 |
| Transfer to reserves | - | 20,323 | 20,323 | - | - | (40,646) | - | - | - |
| Dividend declared (Note 21) | - | - | - | - | - | (48,750) | (48,750) | - | (48,750) |
| Net changes in fair value of available-for-sale investments (Note 7) | - | - | - | - | 20,200 | - | 20,200 | - | 20,200 |
| Realised gain relating to shares sold during the year (Note 7) | - | - | - | - | (9,374) | - | (9,374) | - | (9,374) |
| Board of directors' remuneration (Note 19 (c)) | - | - | - | - | - | (1,400) | (1,400) | - | (1,400) |
| Foreign currency translation adjustments | - | - | - | 372 | - | - | 372 | (162) | 210 |
| Balance at 31 March 2010 | 325,000 | 140,744 | 49,938 | (1,607) | 15,587 | 136,908 | 666,570 | (41) | 666,529 |

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

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As at 31 March, 2010

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

(a) Saudia Dairy & 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 financial statements, are primarily engaged in the production and distribution of dairy products, beverages and various foodstuffs in the Kingdom of Saudi Arabia and certain Gulf and Arab countries. One of the subsidiaries in Egypt (Arab Company for Animal Produce SAE) was engaged in dairy farming business. During the year ended 31 March 2009, the Company had sold this subsidiary (see note 2(a) and 8(b)).

(b) Another subsidiary, Swiss Premium Foods Company SAE, Egypt is engaged in manufacturing and producing ice cream products. During the year ended 31 March 2009, the Board of Directors of the Company decided to sell the subsidiary (see note 2(a) and 11). On 7 October 2009, the shareholders of Swiss Premium Foods Company SAE, Egypt, decided to liquidate the entity. On 31 December 2009, the Ministry of Commerce in Egypt notified the entity as 'under liquidation' (see note 11).

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia, issued by the Saudi Organization for Certified Public Accountants (SOCPA). The following significant accounting policies have been applied consistently:

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

| | <u>SADAFCO's beneficial interest</u> |
|------------------------------------------------|------------------------------------------|
| • SADAFCO Foodstuff Company LLC, UAE | 100% |
| • SADAFCO Bahrain Company, WLL, Bahrain | 100% |
| • SADAFCO Jordan Foodstuff Company LLC, Jordan | 100% |
| • SADAFCO Qatar | 75% |
| • National Buildings Real Estate Company* | 100% |
| • United Gulfers Logistics Company * | 100% |
| • National Sight Holding Company* | 100% |

* The above subsidiaries have not yet commenced their operations.

Other subsidiaries:

- Arab Company for Animal Produce SAE, Egypt (see note (1a) and note (8b))
- Swiss Premium Foods Company SAE, Egypt (see note (1b) and note (11))

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date the control commences until the date the control ceases.

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 financial 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.

(b) Accounting conventions – The consolidated financial statements, are prepared under the historical cost basis (except for available-for-sale investments and derivative financial instruments which are stated at their fair values), using the accrual basis of accounting and the going concern concept.

(c) Functional and presentation currencies – These consolidated financial statements are presented in thousands of Saudi Arabian Riyals (SR) which is the functional and presentation currency of the Group.

(d) 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.

(e) Accounts receivable - Accounts receivable are stated at original invoice amount less allowance 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.

(f) 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. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. 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.

(g) Intangible assets – This primarily represents product development costs which have been amortized over a period of five years.

(h) Capitalisation of borrowing costs – Borrowing costs attributable to acquisition of, and capital expenditure on property, plant and equipment are capitalised during the construction period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investments – The investment in Saudi New Zealand Milk Products Company Limited, Saudi Arabia (SNZMP) (jointly controlled entity with 51% ownership interest) in which SADAFCO did not have control, but had the ability to exercise significant influence over operating and financial policies, was accounted for under the equity method (see note 11).

Other investments are classified as investments available for sale as they do not meet the criteria of securities held to maturity or held for trading. 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 consolidated statement of income. Dividend income from such investments is recorded when declared.

(j) **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 |

– 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.

(k) **Zakat and income tax** – Zakat is computed in accordance with Saudi Arabian Fiscal Regulations and is charged to the consolidated statement of income. Income tax, if any, for the subsidiaries is computed in accordance with the relevant fiscal regulations and charged to the consolidated statement of income.

(l) **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.

(m) **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.

(n) **Employees' end of service benefits** – Provisions for amounts payable under the labour regulations of the countries of incorporation of the Group's member companies are accrued and charged to the consolidated statement of income. These are presented net of advances given.

(o) **Expenses** – Selling and distribution expenses are those arising from the Group's efforts underlying their marketing, selling and distribution functions. All other expenses are classified as general and administrative expenses.

(p) **Operating lease payments** – Payments under operating leases are recognized in the consolidated statement of income on a straight-line basis over the terms of the lease.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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 retranslated 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 consolidated statement of income.

Foreign currency translation

Exchange differences, arising from the translation of foreign currency financial statements of subsidiaries are allocated to the shareholders of the Parent Company and minority shareholders in proportion to their ownership interests in the investee companies. SADAFCO's share in exchange differences is recorded as a separate component of consolidated shareholders' equity, whereas amounts relating to the minority shareholders are included under minority interests in the consolidated balance sheet.

(r) **Derivative financial 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 consolidated balance sheet at fair value and any resultant gain or loss is recognized in the consolidated 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.

(s) **Cash and cash equivalents** – For the purpose of the 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 an original maturity within 90 days.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at 31 March comprise the following:

| | 2010 (SR'000) | 2009 (SR'000) |
|----------------------------------------------------------------|------------------|------------------|
| Cash and cheques in hand | 7,892 | 6,518 |
| Balance with banks in current accounts and short term deposits | 315,375 | 42,227 |
| Deposits with Fund Managers (note 19) | - | 1,125 |
| | <u>323,267</u> | <u>49,870</u> |

4. ACCOUNTS RECEIVABLE

Accounts receivable at 31 March comprise the following:

| | 2010 (SR'000) | 2009 (SR'000) |
|---------------------------------------|------------------|------------------|
| Trade receivables | 124,998 | 112,912 |
| Less: Provision for doubtful accounts | (12,959) | (10,855) |
| Net trade receivables | 112,039 | 102,057 |
| Affiliates | 35,809 | 53,075 |
| Less: Provision for doubtful accounts | (14,983) | (13,830) |
| | 20,826 | 39,245 |
| Advances and other receivables | 39,766 | 16,096 |
| Less: Provision for doubtful accounts | (2,356) | (2,356) |
| | 37,410 | 13,740 |
| | 170,275 | 155,042 |

Movements in the provision for doubtful accounts of receivables were as follows:

| | 2010 (SR'000) | 2009 (SR'000) |
|---------------------|------------------|------------------|
| At 1 April | 27,041 | 24,514 |
| Charge for the year | 3,257 | 2,576 |
| Amounts written off | - | (49) |
| At 31 March | 30,298 | 27,041 |

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) | 30days (SR 000) | 30-60 days (SR 000) | Past due but not impaired 60-90 days (SR 000) | > 90 days (SR 000) |
|------|-------------------|-------------------------------------------------|--------------------|---------------------------|--------------------------------------------------------|-----------------------|
| 2010 | 112,039 | 80,026 | 16,655 | 9,509 | 3,978 | 1,871 |
| 2009 | 102,057 | 73,593 | 16,466 | 6,650 | 2,767 | 2,581 |

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 2010 include a sum of SR 1,231 thousand (2009: SR 2,515 thousand) representing margin deposits with the banks against guarantees issued by the Group's bankers.

6. INVENTORIES

Inventories at 31 March comprise the following:

| | 2010 (SR'000) | 2009 (SR'000) |
|---------------------------------------|------------------|------------------|
| Raw and packing materials | 55,145 | 94,573 |
| Finished goods | 36,163 | 39,385 |
| Spare parts, supplies and other items | 9,008 | 11,828 |
| Goods-in-transit | 48,739 | 13,038 |
| | <u>149,055</u> | <u>158,824</u> |

7. AVAILABLE FOR SALE INVESTMENTS

a) This represents investments at 31 March, in available-for-sale equity securities and is analysed as follows:

| | 2010 (SR'000) <u>Quoted</u> | 2009 (SR'000) <u>Quoted</u> |
|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|
| Cost: | | |
| At the beginning of the year, net of impairment (see note (b) (below)) | 58,414 | 24,492 |
| Purchased during the year | - | 26,699 |
| Reclassification from trading investment (see note (b) (below)) | - | 33,519 |
| Shares sold during the year | (17,573) | - |
| | <u>40,841</u> | <u>84,710</u> |
| Less: adjustment in the carrying value of investments relating to non-temporary decline in value, no longer reflected in equity | - | (26,296) |
| | <u>40,841</u> | <u>58,414</u> |
| Valuation adjustment in equity: | | |
| At the beginning of the year | 4,761 | 492 |
| Net change in fair value taken to consolidated statement of changes in equity | 20,200 | (22,027) |
| Realised gain relating to shares sold during the year transferred to consolidated statement of income | (9,374) | - |
| Non-temporary decline in value transferred to consolidated statement of income | - | 26,296 |
| | <u>15,587</u> | <u>4,761</u> |
| At the end of the year | <u>56,428</u> | <u>63,175</u> |

(b) During the year ended 31 March 2009, the Board of Directors resolved that effective from 1 July 2008, SADAFCO's portfolio investments managed by an affiliate professional fund manager were to be reclassified from trading investment to available-for-sale investments and included under non-current assets in SADAFCO's balance sheet. This reclassification was 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 as available-for-sale investments. Accordingly, effective from 1 July 2008, the carrying value of these investments at that date, amounting to SR 33,519 thousand, was 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.

During the year ended 31 March 2009, the Company recognised an impairment loss of SR 26,296 thousand on its available-for-sale investments, in the consolidated statement of income.

8. OTHER INVESTMENTS

(a) Other investments at 31 March comprise the following:

| | 2010 (SR'000) | 2009 (SR'000) |
|----------------------------------------------------|------------------|------------------|
| Investment in jointly controlled entity (note 8e) | - | 23,625 |
| Other investments available for sale (unquoted) | 1,336 | 1,336 |
| | 1,336 | 24,961 |
| Less: Provision for non-temporary decline in value | (1,093) | (1,093) |
| | <u>243</u> | <u>23,868</u> |

(b) During the year ended 31 March 2009, 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 thousands 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 a 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 ended 31 March 2009, the management of SADAFCO and ACFAP mutually agreed to terminate the above second agreement as if the second agreement was never signed, without any financial or legal obligation on either party. The first instalment of LE 12,000 thousand due on 28 December 2008 from GEAIF was collected, and the second instalment of LE 7,700 thousand due on 28 December 2009 was collected on the due date, and consequently, as at 31 March 2010, the Company has a receivable of SR 13,428 thousands (at present value) against sale of investments under the first agreement.

(c) In prior years, SADAFCO sold the majority of its interest in Egyptian Dairy and Foodstuff Company, Egypt (ex-subsiidiary) 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 was concurrently 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 financial 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

8. OTHER INVESTMENTS (continued)

- (d) SADAFCO's ownership interest in some of the investments is held through parties nominated by the Company.
- (e) During the year ended 31 March 2010, the Board of Directors of SADAFCO resolved to sell its 51% ownership interest in Saudi New Zealand Milk Products Co. Ltd., Saudi Arabia (SNZMP) to Milk Products Holdings (MPH) (Middle East) and in order to execute the sale of ownership interest in SNZMP, SADAFCO entered into a "Sale and Purchase Agreement". During the year ended 31 March 2010, the legal formalities in respect of sale of ownership interest have been completed. Gross sale proceeds relating to the above transaction amounted to SR 135,162 thousand, and were received on 30 March 2010, after deduction of Zakat paid by SNZMP on behalf of SADAFCO, amounting to SR 2,476 thousand. The carrying value of the investment as at 30 March 2010 amounted to SR 25,803 thousand. Consequently, a gain of SR 109,359 thousand has been recognised and the investment has been derecognized from the books during the year ended 31 March 2010. The Zakat deducted from sale proceeds has been included under Zakat charge in the consolidated statement of income.

9. INTANGIBLE ASSETS

| deferred costs at 31 March comprise the following: | Intangible assets representing | |
|----------------------------------------------------|--------------------------------|------------------|
| | 2010 (SR'000) | 2009 (SR'000) |
| Total amount | 6,370 | 6,370 |
| Amortization to-date | (6,370) | (5,661) |
| Balance at end of the year | - | 709 |

10. PROPERTY, PLANT AND EQUIPMENT

(a) The movement in property, plant and equipment for the year ended 31 March, 2010 is analysed as follows:

| | Land and buildings | Machinery and equipment | Vehicles and trailers | Furniture, fixtures & office equipment | Capital work-in-progress | Total |
|--------------------------------------------------|--------------------|-------------------------|-----------------------|----------------------------------------|--------------------------|----------|
| (SR'000) | (SR'000) | (SR'000) | (SR'000) | (SR'000) | (SR'000) | |
| Cost : | | | | | | |
| Balance at beginning of the year | 219,420 | 526,588 | 142,492 | 49,195 | 10,185 | 947,880 |
| Additions | 4,904 | 1,896 | 5,136 | 481 | 29,744 | 42,161 |
| Disposals | - | (3,882) | (14,096) | (171) | - | (18,149) |
| Reclassifications | 2,957 | 10,762 | - | 453 | (14,172) | - |
| Effect of fluctuations in foreign exchange rates | (2) | 1 | (1) | - | - | (2) |
| Balance at end of the year | 227,279 | 535,365 | 133,531 | 49,958 | 25,757 | 971,890 |
| Accumulated depreciation: | | | | | | |
| Balance at beginning of the year | 133,027 | 414,609 | 121,984 | 45,919 | - | 715,539 |
| Charge for the year | 5,166 | 22,148 | 6,885 | 1,233 | - | 35,432 |
| Disposals | - | (3,882) | (14,083) | (150) | - | (18,115) |
| Effect of fluctuations in foreign exchange rates | - | (1) | (1) | - | - | (2) |
| Balance at end of the year | 138,193 | 432,874 | 114,785 | 47,002 | - | 732,854 |
| Net book amounts: | | | | | | |
| At 31 March 2009 | 86,393 | 111,979 | 20,508 | 3,276 | 10,185 | 232,341 |
| At 31 March 2010 | 89,086 | 102,491 | 18,746 | 2,956 | 25,757 | 239,036 |

10. PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Capital work-in-progress included in property, plant and equipment, mainly represents cost of civil works for construction/extension of a factory.

(c) Depreciation charge for the year ended 31 March, has been allocated as follows:

| | 2010 (SR'000) | 2009 (SR'000) |
|-----------------------------------------------|------------------|------------------|
| Cost of sales | 18,305 | 19,419 |
| Selling and distribution expenses (note 14) | 16,163 | 17,303 |
| General and administrative expenses (note 15) | 964 | 1,116 |
| | <u>35,432</u> | <u>37,838</u> |

(d) The ownership interest of the Company in certain freehold land amounting to SR 6,183 thousand (2009: SR 1,538 thousand) is held 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 (the Buyer), a related party, for SR 20,000 thousand, resulting in a gain of SR 15,355 thousand. Out of the sale value of SR 20,000 thousand, the Company received from the Buyer SR 3,000 thousand during the year ended 31 March 2008 and the remaining balance of SR 17,000 thousand was scheduled to be received on 30 March 2009. The Company received a cheque of SR 17,000 thousand from the Buyer on the due date. However, as the legal formalities for transferring the title to the Buyer were not completed within the agreed timeframe, the Company agreed with the Buyer not to deposit the cheque into the Company's bank account.

As the completion of legal formalities for the transfer of land were delayed, both parties have mutually agreed to revoke the contract in respect of sale of land on 1 February 2010. Consequently, during the year ended 31 March 2010, the Company has recorded a liability towards the buyer in respect of refund payable of SR 3,000 thousand (see note 19(b)), recognized the land in its books of account at the original value of SR 4,645 thousand and written-off the amount due from the buyer of SR 17,000 thousand (see note 19(b)). Furthermore, the management has recorded a full provision against the carrying amount of land of SR 4,645 thousand, as provision for impairment due to uncertainties involved in realizing the sale proceeds from this land in any future sale transaction. The provision has been classified under accruals and other liabilities.

11. DISCONTINUING OPERATIONS (SUBSIDIARY/INVESTMENT HELD FOR DISPOSAL)

During the year ended 31 March 2009, the Company decided to sell the Company's beneficial interest of 96.3% in Swiss Premium Foods Company SAE, Egypt (SPF) and consequently, at 31 March 2009, this subsidiary was classified as a subsidiary held for disposal (see note (1b)). SPF is engaged in manufacturing and production of ice cream products.

The results of the subsidiary held for disposal, for the year ended 31 March 2010, are presented below:

| | 2010 (SR '000) | 2009 (SR '000) |
|-----------------------------------------------------|-------------------|-------------------|
| Swiss Premium Foods Company SAE, Egypt | | |
| Revenue | 738 | 7,344 |
| Cost of sales | (1,502) | (5,669) |
| Gross (loss)/ profit | (764) | 1,675 |
| Expenses | (4,492) | (4,696) |
| Net loss for the year | (5,256) | (3,021) |
| Net income of SNZMP for the year (see note 8(e)) | 2,168 | 3,060 |
| Net loss for the year from discontinuing operations | (3,088) | 39 |

The major classes of asset and liabilities of SPF classified as held for disposal, as at 31 March 2010, are as follows:

| | 2010 (SR '000) | 2009 (SR '000) |
|-----------------------------------------------------------------------|-------------------|-------------------|
| Assets: | | |
| Property, plant and equipment | 9,631 | 11,352 |
| Receivables | 129 | 1,178 |
| Inventories | - | 934 |
| Others | 151 | 95 |
| Assets classified as held for disposal | 9,911 | 13,559 |
| Liabilities: | | |
| Payables to shareholder | 13,882 | 10,497 |
| Trade payable | - | 833 |
| Bank borrowings | - | 4,653 |
| Accrued liabilities | 4,532 | 835 |
| Others | 21 | 54 |
| Liabilities classified as held for disposal | 18,435 | 16,872 |
| Net liabilities directly associated with subsidiary held for disposal | (8,524) | (3,313) |

The Board of Directors of the Company have decided to liquidate the investment in SPF (see note 1(b) and 2(a)), and upon liquidation, the sale proceeds will be distributed to the owners of the Company.

12. SHORT-TERM BANK DEBTS

Short-term bank debts represent overdrafts 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. At 31 March 2010, no short term bank debts were outstanding.

13. SHAREHOLDERS' EQUITY

(a) Capital

The capital of the Company is SR 325,000,000 divided into 32,500,000 shares of SR 10 each, which is fully paid.

(b) Statutory reserve

In accordance with Article 125 of the Saudi Arabian Regulations for Companies, the Company 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 at 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.

(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 financial statements of the consolidated subsidiaries.

14. SELLING AND DISTRIBUTION EXPENSES

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

| | 2010 (SR'000) | 2009 (SR'000) |
|---------------------------------------|------------------|------------------|
| Employee costs | 62,069 | 59,320 |
| Advertising and sales promotion | 72,599 | 51,727 |
| Depreciation (Note 10c) | 16,163 | 17,303 |
| Vehicle running and maintenance costs | 6,251 | 6,087 |
| Insurance | 2,358 | 2,451 |
| Rent | 2,426 | 2,475 |
| Communication | 971 | 958 |
| Other | 15,544 | 14,343 |
| | <u>178,381</u> | <u>154,664</u> |

15. GENERAL AND ADMINISTRATIVE EXPENSES

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

| | 2010 (SR'000) | 2009 (SR'000) |
|------------------------------------------------------|------------------|------------------|
| Employee costs | 37,707 | 28,677 |
| Chairman and Audit Committee remuneration (Note 19c) | 1,600 | 1,600 |
| Depreciation (Note 10c) | 964 | 1,116 |
| Communication | 66 | 92 |
| Repairs and maintenance | 798 | 578 |
| Insurance | 373 | 418 |
| Rent | 385 | 80 |
| Printing and stationery | 174 | 162 |
| Diesel and electricity | 135 | 130 |
| Consultancy | 9,871 | 5,713 |
| Other | 8,007 | 6,163 |
| | <u>60,080</u> | <u>44,729</u> |

16. OPERATING LEASES

SADAFCO and its subsidiaries have certain warehouses and sales depots under operating leases extending 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:

| | 2010 (SR'000) | 2009 (SR'000) |
|---------------------------------------------------|------------------|------------------|
| Not later than one year | 489 | 566 |
| Later than one year but not later than five years | 740 | 440 |
| | <u>1,229</u> | <u>1,006</u> |

17. COMMITMENTS AND CONTINGENCIES

- At 31 March 2010, SADAFCO and its subsidiaries have outstanding commitments for future capital expenditures amounting to SR 25,090 thousand (2009: SR 10,022 thousand).
- SADAFCO has a contingent liability of SR 13,497 thousand (2009: SR 18,635 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 (2009: SR 1,077 thousand) in favour of a bank to secure bank facilities for one of its subsidiaries.
- At 31 March 2010, the Company had outstanding interest rate swap contracts with a notional amount of SR 100,000 thousand (2009: SR 100,000 thousand) and negative fair value of SR 6,948 thousand (2009: negative fair value of SR 5,148 thousand). 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:

| | 2010 (SR'000) | 2009 (SR'000) |
|--------------------------------------------------------------------------|------------------|------------------|
| Relating to SADAFCO | 12,976 | 7,000 |
| Relating to investment in Saudi New Zealand Milk Products Company Ltd | - | 500 |
| | <u>12,976</u> | <u>7,500</u> |

(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 follows:

| | 2010 (SR'000) | 2009 (SR'000) |
|--------------------------------------------------------------------------|------------------|------------------|
| Capital | 325,000 | 325,000 |
| Adjusted net income | 219,469 | 28,539 |
| Adjusted reserves, provisions and others at the beginning of the year | 265,221 | 272,116 |
| Deduction for long-term assets | (235,028) | (228,860) |
| Deduction for investments | (56,428) | (80,069) |
| Deduction for dividend paid | (48,750) | (48,750) |
| | <u>469,484</u> | <u>267,976</u> |

(c) Accrued Zakat

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

| | 2010 (SR'000) | 2009 (SR'000) |
|----------------------------------|------------------|------------------|
| Balance at beginning of the year | 13,817 | 14,571 |
| Payments during the year | (10,488) | (8,254) |
| Charge for the year | 12,976 | 7,500 |
| | <u>16,305</u> | <u>13,817</u> |

18. ZAKAT (continued)

(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 December 31, 1996. Final assessments for subsequent financial years up to March 31, 2002 have been received with total additional Zakat liability of SR 8,862 thousand and for the financial years ended March 31, 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 the Preliminary Appeal Committee (PAC) decision for the years 1997 to 31 March 2002. The Company has filed an appeal against the HAC decision with the Board of Grievances (BOG). The revised additional zakat liability is SR 8,254 thousand in terms of the HAC decisions.

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

The shortfall in the provision for the financial years up to March 31, 2002, amounts to SR 2,677 thousand and the shortfall in the provision for the financial years of March 31, 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 financial years ended March 31, 2002 by providing a bank guarantee to the DZIT, amounting to SR 7,765 thousand for the Zakat assessments relating to financial years 1997 through 2002. Another bank guarantee amounting to SR 5,382 thousand has been provided to the DZIT in respect of revised liability as per the PAC decision for the years 2003 and 2004 (see note 17b).

The DZIT raised assessments for the years ended March 31, 2005 through March 31, 2007 with an additional zakat liability of SR 6,381 thousand. The Company has filed an appeal against these assessments.

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
- (b) Related party transactions for the year ended 31 March and balances arising therefrom are described as under:

| Transactions with | Nature of transaction | Amount of Transactions | | Closing balance Receivable/(Payable) | |
|--------------------------------------|---------------------------------------------------------------------------------------------------------|------------------------|------------------|--------------------------------------|------------------|
| | | 2010 (SR 000) | 2009 (SR 000) | 2010 (SR 000) | 2009 (SR 000) |
| Affiliates/Jointly Controlled entity | Purchase of goods and services | (31,459) | (41,388) | (2,346) | (8,892) |
| | Net settlement against purchase of goods and services | 38,005 | 39,774 | - | - |
| Affiliates | Advance payment Accounts | (75) | (556) | - | 75 |
| Affiliates | Current account | 3,908 | (843) | 4,987 | 1,079 |
| Affiliates | Current account payable | - | 44 | - | - |
| Affiliate | Sale of a subsidiary (see note 8 (b)) | - | 29,232 | 15,839 | 21,091 |
| | Instalment received in respect of above sale (see note 8 (b)) | (5,252) | (8,141) | - | - |
| Affiliate | Receivable written off (see note 10 (e)) | (17,000) | - | - | 17,000 |
| Affiliate | Refund payable to an affiliate (see note 10 (e)) | (3,000) | - | (3,000) | - |
| Affiliate | Deposit with Fund Manager, net Trading/available-for-sale investment (see note below) – Investment made | (1,125) | (35,043) | - | 1,125 |
| | Unrealised gain/(loss) | - | 24,120 | - | 19,567 |
| | Investment sold | 7,380 | (17,482) | - | - |
| | | (26,947) | (14,075) | - | - |

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

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

Directors' attendance fees, 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 2010 and amounted to SR 1,600 thousand (2009: 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 2010 was 32.5 million (31 March 2009: 32.5 million) shares of SR 10 each. The calculation of diluted earnings per share is not applicable to the Company.

21. DIVIDEND

In the Board of Directors' Meeting of the Company held on 23 January 2010, the directors declared an interim dividend of Saudi Riyals 1.5 per share amounting to SR 48,750 thousand, which was appropriated from the retained earnings and paid during the year ended 31 March 2010. Subsequent to the year end, the Board of Directors proposed distribution of dividend of Saudi Riyals 1.5 per share amounting to SR 48,750 thousand which has not been provided for in the consolidated financial statements.

In the Annual General Meeting of the Company held on 13 July 2008, the shareholders authorised a final dividend of Saudi Riyals 1.5 per share amounting to SR 48,750 thousand, which was appropriated from the retained earnings.

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 financial instruments. The Group is subject to interest rate risk on its interest bearing bank deposits.

The management limits the Group's interest rate risk by monitoring changes in interest rates in the currencies in which its interest bearing assets are denominated and uses interest rate swaps to strategically hedge its risk. Deposits with fund managers (note 3) are interest free.

Credit risk

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

22. RISK MANAGEMENT (Continued)

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial 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 Group limits its liquidity risk by ensuring that sufficient bank facilities are available.

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

Currency risk

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

Trade accounts payable include an amount of SR 12,206 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 200,573 thousand (2009: SR 182,083 thousand), and the provision for doubtful debts was SR 30,298 thousand (2009: SR 27,041 thousand) (note 4). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of income 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 159,872 thousand (2009: SR 166,650 thousand), and the provision against inventory was SR 10,817 thousand (2009: SR 7,826 thousand).

24. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and bank balances, available-for-sale investments and receivables, its financial liabilities consist of accounts payable, payable to affiliates and shareholders, other liabilities and unpaid dividend, and its derivatives consist of interest rate swaps. The fair values of financial 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.