



Saudia Dairy and food stuff Company  
Annual Report  
2010 - 2011





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

Dear Shareholders,

In the name of God the most Gracious the most merciful,

On behalf of myself and my colleagues the Board of Directors of SADAFCO I am pleased to congratulate you on the good results that were achieved at SADAFCO for the Year 2010/2011 as is displayed in the following Annual Report, Financial year End results with Auditor's report.

SADAFCO has achieved net profits of SR 130 m despite the many challenges it has faced in the previous year. Sales have continued to grow and SR1,134 m was achieved this year in comparison to SR 1,023 m for the year 2009/2010 an increase of 11%.

To meet rising demand for our products, SADAFCO has started to consider the option of unifying all its operations under one roof and has initiated feasibility studies to increase productivity and output and streamline all functions to satisfy future demand.

The Board and Senior Team at SADAFCO will continue their efforts to strengthen SADAFCO's leading positions under the "Saudia" brand, while developing a wide range of nutritious food propositions for consumers of all age groups and create maximum shareholders' value.

As part of the company's commitment to encourage, employ and develop Saudi Youth in the private sector, SADAFCO worked in partnership with the Jeddah Labour Office to fund training for 200 Saudi young men and women.

The training lasted two months after which SADAFCO selected 70 Saudis to join its workforce across different functions and geographic locations.

SADAFCO is committed to supporting its local community and has continued to contribute to various corporate social responsibility projects.

Finally I would like to thank The Custodian of the two holy mosques , His Highness the Crown Prince and His Highness the Second Deputy and the Government of Saudi Arabia for their continued efforts to support local industries.

I also take this opportunity to thank shareholders, fellow SADAFCO board members, executive management and all employees at SADAFCO for their continued effort.

Chairman,  
Hamad Sabbah Al Ahmad.

## CEO Message

It is with pleasure that we may write a few reflections on last year's events.  
In brief:

Top line grew faster than the industry average with operational profits above expectations; at both levels, double digit growth was realized, for a second year in a row.

We were able, as promised, to introduce a few new tasty Saudia concepts: GUF (Growing Up Fruit: a healthy liquid fruit snack for 1+ years), Butter, French Fries and a few daring new flavors of Premium ice creams. Among the previous years' introductions, it was milk powder in particular that did very well in addition to the backbone of the Sadafco business, Liquid Milk and Tomato Paste. Distribution has significantly improved as a result of earlier made investments. A great example of this was Jordan, which climbed from a low-performing market to the second biggest after Saudi Arabia.

Among several current projects, the most important is ensuring future capacity. We are still working on the best long-term solution and expect progress within the next few months. In the meantime, investments made across the company are helping drive the demand momentum, thereby further improving the service to our customers and consumers. Moreover, market shares across all Saudia's categories have improved.

Like many others around us, we experienced a setback as a consequence of the flooding at the Regional Distribution Centre in Jeddah in January. However, as a result of the continuously improving team work, across all levels within the company, and the way the calamity was handled, we ensured that operational losses were kept at a minimum.

In close cooperation with the Ministry of Labour Jeddah Office, Sadafco has introduced a program for employing female workers in our industry, with encouraging results so far.

We look forward to demonstrate that the company continues to play a leading role in developing young (and older) Saudis, male and females alike, by offering training and employment, thereby helping them in building their futures.

Sadafco has also adopted the minimum set income levels for Saudis, with effect from 1st April 2011.

The new fiscal year is already a couple of month's old as we strive to achieve the challenging and Board-approved Budget. The first signs are encouraging and we appreciate the Board's positive support and their continuous interest of building a stronger branded quality food company.

Last but not least, I would like to offer my sincere thanks to all Sadafco colleagues throughout the company who are helping the company and its Brands become stronger and more successful year on year.

CEO  
Wout Matthijs

## Executive Management



### From left to Right

**Mr. Khalid Bakhsh** / CFO

**Mr. Steve Satherley** / Chief Operations Officer

**Mr. Mohammed Attar** / Chief Marketing Officer

**Mr. Wout Matthijs** / CEO

**Mr. Ziyad Kabli** / Chief Supply Chain Officer

**Mr. Paul Van Schaick** / Organisation Development Manager

## Introduction:

Since its establishment in 1976, Saudia Dairy & Foodstuff Company – (SADAFCO) has been a leader in the long life milk market in Saudi Arabia, capturing around 58% of the long life (UHT) milk market share. In addition to long life milk the company also manufactures tomato paste, ice cream, snacks and drinks. During the last two years SADAFCO launched new products including: breakfast cream, a variety of cheeses, butter, powdered milk, ketchup, fortified children's milk and frozen french fries. These products were added to our distribution to fulfill the customers' needs through full ownership of our mission statement "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", the company seeks to provide a complete product range for their consumers under the 'Saudia' brand.

The table below shows the contribution of each category into the results:

Product	Impact on Sales	Impact on Net profit
Milk	67%	95%
Tomato paste	8%	4%
Ice cream	8%	10%
Powdered milk	4%	-3%
Cheese	7%	-5%
Others	6%	-1%



SADAFCO RDC , Jeddah

SADAFCO owns several subsidiaries that help achieve its goals through increased product distribution. Furthermore, there are three additional companies, which focus on real-estate, transportation, and investments.

The table below shows the subsidiaries, their main activities, country of origin and activity

Company Name	Main Activity	Country of Origin & Head Quarters	Ownership
*SADAFCO Foodstuff Company LLC	Import, sale and distribution of dairy products and other goods	United Arab Emirates	100%
SADAFCO Jordan Foodstuff Company LLC	Import, export, distribution marketing, and trading dairy goods, ice cream and goods of all kinds	Hashemite Kingdom of Jordan	100%
SADAFCO Qatar	Sale and distribution of dairy products and goods	Qatar	75%
SADAFCO Bahrain Company LLC	Import, export, sale, and distribution of dairy goods, ice cream, and other Saudia products	Kingdom of Bahrain	100%
National Buildings Real Estate -	Owning and acquisition lands and real-estate, developing and investing in real-estate projects	Kingdom of Saudi Arabia	100%
United Gulfers Transport -	Transportation of goods, , storage, and cooling logistics	Kingdom of Saudi Arabia	100%
National Sights Holding	Investment in Controlling stakes in companies	Kingdom of Saudi Arabia	100%

\*A decision was made by the board of directors approving the liquidation of the company on 18/01/2011, legal action has been Started to liguidate and delete the commercial Registrar .



## Sales:

The year 2010/2011 witnessed a continuous growth in sales of 11% after crossing the SR billion boundary last year; the following were the major achievements of sales:

### **Growing up milk :**

To support its launch in both supermarkets and pharmacies an attractive display stand was developed and distributed to the trade. SADAFCO is the only company in the GCC selling Growing Up Milk ( milk for children aged 1-5 ) in both liquid and powder form.

### **New UHT Stand Deployments:**

SADAFCO recently launched very innovative highly branded contemporary UHT display stands. An initial 500 units were distributed to supermarkets across the Kingdom. These display stands have proven to be highly effective and have significantly enhanced in-store presence and have already lead to much higher sales in the selected outlets

### **Visibility - Ice Cream Open Freezer :**

Following a strategic review of SADAFCO's ice cream business a decision was taken to embark on a major re-branding exercise of its 2 Liter and 500ml ice cream tubs product range. This initiative has proven to be remarkably successful with overall sales in supermarkets more than doubling since launch.

### **New Ice Cream Freezer Placement:**

A major distribution drive followed the investment in 6,000 new ice cream freezers. Highly visual, well branded freezers have resulted in tremendous growth in sales of Saudia ice cream leading to market share gains and overall volume brand leadership in the KSA ice cream market.

### **New Ice Cream Sales Truck: Improved Design:**

SADAFCO recently launched its newly designed ice cream vehicles across all markets. The new design reinforces the trademark Saudia "Blue Stripes" while presenting a premium image with tremendous food appeal. In addition loading capacity has been increased by 83%.

### **National Sales Competitions:**

A number of National Sales Competition's were run over the past year. These competitions were very well received and added greatly to regional team building and inter regional rivalry. More importantly they provided an opportunity to recognize exceptional performance.

### **New Uniforms for Sales Team:**

Newly designed uniforms were provided during the year to all sales staff which enhanced SADAFCO's professional image in the market.

### **New Hand Held Device for Sales:**

New "Intermec" Hand Held Terminals (HHT) from the USA were launched during the year. These HHT's represent leading edge technology and provide greatly enhanced sales information and controls. Since their introduction call rates by salesmen have improved significantly and overall sales are setting new records each month.

### **Newly Developed Sales System – SEBA:**

SEBA is a powerful backend sales system which enables very detailed daily performance reviews of each individual salesman's performance. These daily reviews of performance ensure that the emphasis is on the achievement of daily targets and that all retail customers get consistent service. In addition the system allows for weekly and monthly peer comparison measurement.

Below is a table describing the company's sales by region and its subsidiaries for the year 2010/2011:

Description	Country	Region	SAR Millions
Sadafco-KSA	Saudia	Western Region	281
		Southern Region	210
		Central Region	261
		Northern Region	127
		Eastern Region	128
SADAFCO-BAHRAIN	Bahrain	Bahrain	29
SADAFCO QATAR	Qatar	Qatar	24
SADAFCO JORDAN	Jordan	Jordan	42
EXPORT	Kuwait	Kuwait	13
	UAE	UAE	8
	Others	Yeman, Egypt, etc	11
Total			1,134



## Marketing:

The marketing department worked during last year on supporting the sales activities through marketing campaigns, promotions and advertisements. The major achievements were:

Revival of the 200ml milk pack, which has been the backbone of "Saudia's" milk business has been a significant land mark. It has achieved a record 63% market share in Jan 2011 (highest since Sept' 2009), in spite of its premium price versus competitors. The 1 liter pack also achieved the highest ever market share at 50%. Moreover, Saudia milk brand image improved significantly in terms of brand awareness and health perception. Overall brand health enhancements have been supported by holistic brand building programs through multiple touch points.

"Saudia" Instant Milk Powder sales have almost tripled to SAR 42 million this year, with KSA value share growing to 4%. The success of Saudia IMP is mainly due to the winning combination of superior product offering and consumer activation activities.

Repositioned the "Junior" offering where it has been upgraded from base nutrition to an enhanced nutrition platform targeting 1 to 5 year old children. This launch included a powder format in addition to a unique liquid 200ml format that can conveniently be consumed out side the home.

"Saudia" tomato paste launched an interactive cooking show across major urban centers in KSA to sustain long term brand image and to help maintain Saudia tomato paste market leadership.

"Saudia" ice cream sustained double digit sales growth (+27%) in 2010/11 versus last year. The growth was driven by Saudia ice cream family pack re-launch, which was supported by media and consumer sampling activities, in addition to the deployment of new freezers and new sales routes. New introductions of premium range 5.0ltr sizes, improved availability, visibility and rotation for "Saudia" ice cream in the retail & out of home channels.



## Manufacturing Operations:

Manufacturing operations have continued to focus on raising the overall performance of both production facilities through the following initiatives:

- Continuous improvement (CI) program focused on people, materials, machines and methods to increase flexibility and factory output.
- CI program being rolled out site-wide with emphasis on stabilizing teams performance by focusing on shift managers, team leaders development and training with a strong emphasis on working to structured daily & weekly reviews across all areas.
- This is demonstrated by current Overall Equipment Efficiency (OEE) targets as follows: Jeddah Ice Cream Factory actual 77% versus previous year 75% and Jeddah Factory actual 70% versus previous year 67%
- Operating to a fixed weekly plan has helped factories plan better, procurement to make Raw and Packaging materials available with the result of meeting the sales demand plan on a more consistent basis.
- Continual emphasis on raising quality standards with both factories focusing on moving toward ISO 22000 certification.
- Installation of new capital equipment including:
  - Jeddah Milk, Tomato Paste and Snacks Facility:
    1. A3 flex filling machine, 30,000ltr/hr
    2. UHT processor, 30,000ltr tank,
    3. Increase Snacks capacity
  - Jeddah Ice Cream Facility:
    1. Installation of relocated cone machine from Swiss Premium Foods, Egypt
    2. Installation of HASS cone baking machine, mix tanks, pasteurizer and homogenizer to increase processing capacity



## Supply Chain and Logistics:

Supply Chain & Logistics operations have focused on lifting productivity throughout the company value chain.

The primary distribution fleet has completed 16,000,000km across the Kingdom and GCC delivering more than 30,000,000 cases of finished goods to its destination, on time in full, at an improved service level of 98.5%. The productive output per truck has improved by 4% benefiting from 30 new trailers deployed in Q1 to enhance overall fleet capacity.

Mid size distribution fleet and freezer cabinets capacity were increased to open new routes to market. One hundred and six (106) new sales van & 6,000 freezers were successfully deployed in the first half of 2010/11 financial year.

SADAFCO cold chain infrastructure was upgraded in KSA, Jordan, Bahrain and Qatar. The storage quality and capacity enhancement initiatives will continue over the next few years according to business needs.

SADAFCO procurement function have continued to supply high quality raw and packaging materials from local and international suppliers at 99% quality and service level compliance and still were able to expand the number of origins to minimize global price risk fluctuations in food commodities. All key raw and packaging materials costs were controlled under budget plan.



## Human Resources and Corporate Affairs:

SADAFCO continues to encourage Saudi youth, therefore, in coordination with the Jeddah Labour office, the company sponsored a work place training program for two months for 200 Saudi youths, amongst which, 70 were hired to join SADAFCO staff.

Currently SADAFCO maintains a Saudization ratio of 27.4%, while seeking high caliber employees to join SADAFCO and further improve the organization.

Finally in order to enhance employee's moral and loyalty the company launched a loan fund which provides financial support to the employees through small sized loans, which are re-paid through installments.

## Corporate Social Responsibility:

SADAFCO participated in several social responsibility programs to enhance its social role:

- 1.Participated in the World Milk Day
- 2.In-kind donations to charity organizations
- 3.Participated in the Career day at Kind Abdulaziz University (KAU)
- 4.Continues to provide financial support to Jeddah Institute of Speech and Hearing JISH
- 5.Sponsored and Participated in the social responsibility day & continued education at KAU and Municipality.

## Key Highlights and financial results:

- Net profit for the year is SAR 130 million, compared to the same period last year profit of SAR 203 million a decrease of 36%.
- The earnings per share (EPS) for the year are SAR 4 compared to SAR 6.25 for the previous year
- The gross profit for the year is SAR 368.1 million compared to the same period last year of SAR 365.3 million an increase of 1%.
- The operating net profit for the year is SAR 125.7 million compared to the same period last year's profit of SAR 126.9 million a decrease of 1%.
- Net sales for financial year ending 31st March 2011 is SAR 1,134 million, 11% higher (SAR 112mIn) than last year. This growth in revenue is a result of robust growth in core categories such as milk, ice cream and successful new innovations. Focused brand activation programs, enhancement of consumer visibility, improvements in sales efficiencies & driving quality across the value chain were key success factors in achieving this double digit growth, for the second year in a row.
- Regarding the net profit, apart from the exceptional gain 2009/10 due to sale of investment (SAR 109 million), this year's profit is SAR 130 million compared to SAR 94 million for 2009/10 (net of gain from investments) an increase of 38%. In short, the company's performance is healthy and continuously improving year on year basis.

## Assets and Liabilities Over five year period

(Amounts in SAR million )	2010/11	2009/10	2008/09	2007/08	2006/07
Current assets	806	669	399.2	440.1	367
Fixed assets	268	239	232.3	256.8	311.2
Non-current assets	0	56.7	87.8	67	54.1
Current liabilities	272	228.4	153.9	188	177.9
Non current liabilities	72	69.2	62.8	60.6	62.1
Total equity	731	667.1	502.6	515.3	492.3
Sales	1,134	1,023	922	871	759
Net Income	130	203	28	57	33

The table below reflects the change in income statements for the year 2010/2011 compared to last year:

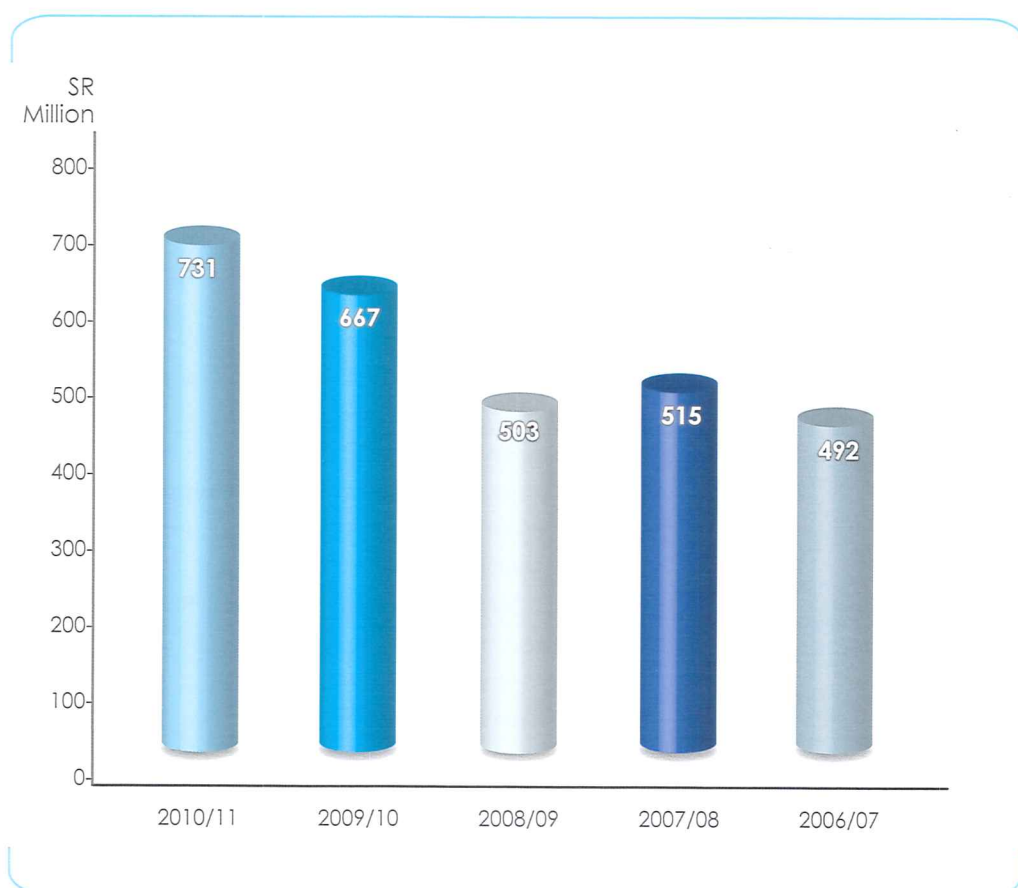
(Amounts in SAR million )	Mar-11	Mar-10
Net sales	1,134	1,023
Cost of sales	(766)	(657)
Gross profit	368	365
Other Income	19	92
Selling & Distribution	(189)	(178)
General & Administration costs	(53)	(60)
Bank expenses	(-1)	(-3)
Zakat	(14)	(13)
Net profit ( loss )	130	203

Operating income for the year ended 31st March 2011 is 125.7Mln vs. SAR 126.9Mln for the same period last year with decrease of 1% mainly due to key material price increase impact.

The table below shows statutory payments due to be paid for Zakat, taxes and /or other fees.

Government Agency (in SR Thousand)	Due	Paid	Balance
Customs	19,992	19,992	0
Zakat and Tax	13,120	13,120	0
GOSI	6,620	6,620	0
TADAWUL Contract	300	300	0
Government Fees and visas	3,407	3,407	0
Total	43,439	43,439	0

The change in shareholders' equity:





## The composition of the Board of Directors :

The board of directors is composed of seven members, who were elected for the period from 01/04/2009 to 31/03/2012. There were three meetings during the year 2010/2011.

Below is the table of attendance for the three meetings.

Name	Classification	1st Meeting 13/4/2010	2nd Meeting 28/9/2010	3rd Meeting 18/1/2011	Total
HH Sheikh: Hammad Sabah AlAhmad	Non-executive	√	√	√	3
Mr. Faick Hussain Al-Saleh	Independent	×	√	√	2
Mr. Faisal Hammad Mubarak Al-Ayyar	Non-executive	√	√	√	3
Mr. Abdullah Yaqoob Bishara	Non-executive	√	√	×	2
Mr. Essa Khalid Essa Al-Saleh	Non-executive	√	√	√	3
Mr. Suliman Saud Al-Jar Allah	Independent	×	√	√	2
Mr. Mussad Abdullah Al-Nassar	Executive	√	√	√	3

Below is the table of the companies in which, SADAFCO board members, hold other board membership:

Name	Listed Company
HH Sheikh: Hammad Sabah AlAhmad	1) Chairman of KIPCO 2) Chairman of SADAFCO 3) Chairman of Gulf Egypt Hotels and Tourism Company 4) Vice Chairman of United Gulf Bank
Mr. Faisal Hammad Mubarak Al-Ayyar	1) Vice Chairman of KIPCO 2) Vice Chairman of Gulf Insurance Company 3) Board Member of SADAFCO 4) Board Member of United Gulf Bank 5) Vice Chairman of Jordanian Kuwaiti Bank
Mr. Abdullah Yaqoob Bishara	1) Chairman of North Africa Holding Company 2) Board Member of SADAFCO 3) Board Member of KIPCO
Mr. Essa Khalid Essa Al-Saleh	1) Chairman and CEO of United Industries Company 2) Vice Chairman of Al Qurain Petrochemical Company 3) Board Member of Kuwaiti Perfumes Company 4) Board Member of SADAFCO 5) Board Member of Al Atoun Steel Industries Company

## Board Committees:

### First: Internal Audit Committee:

The Audit Committee consists of three members, all are non-executive members of the SADAFCO Board of Directors, amongst them there is a specialist in financial matters. The Audit Committee held 3 meetings during the financial year 2010/2011. The committee's functions and responsibilities include:

- 1) Overseeing the internal audit function within the company, in order to ascertain the extent of its effectiveness in the implementation of guidelines, actions and tasks set by the Board of Directors and study the internal control system.
- 2) To produce a written report with its views and recommendations regarding the Internal Audit function. To review the Internal Audit report and oversee the implementation of its recommendations.
- 3) Recommend to the BOD the appointment of the external auditors, their dismissal, agreement of their fees and to ensure their independence. The study and review of the audit plan with the auditors and to study feedback remarks on the financial statements.
- 4) Review and give opinion on the financial statements before the initial and annual presentation to the Board of Directors.
- 5) Review accounting policies used and recommendation to the board of directors.

The following table shows the names of the members of the Audit Committee and meetings held during the fiscal year 2010/2011

Name	Capacity	1st meeting 17/05/2010	2nd meeting 14/06/2010	3rd meeting 19/06/2010
Mr.Faisal Hamad Mubarak Al-Ayyar	Chairman	√	√	√
Mr. Essa Khalid Essa Al-Saleh	Member	√	√	√
Mr. Faick Hussein Saleh	Member	√	√	√

## **Results of annual Internal audit effectiveness in the company:**

The SADAFCO Board is dedicated to enhance the existing internal audit function in line with latest professional developments. Thus the Board has approved the appointment of Price Waterhouse-Coopers (PWC) to support the internal audit team by implementing an overall audit plan over a three year period. The scope of the PWC internal audit is an earlier risk assessment report prepared by Deloitte & Touche who made a comprehensive review of all functions of the company during 2009.

The Internal Audit Team has carried out periodic internal control procedures their scope of work also covered all operational areas of the company based on the above mentioned risk assessment study and the approved audit plan.

The outcome of these audit procedures has so far not indicated the existence of any material weakness which were not previously highlighted. The executive management of the company will implement recommendations suggested by the internal auditors to improve internal control procedures in the company in line with the timescales agreed upon. This will strengthen the current processes and procedures.

Thereafter, the internal audit team in accordance with its action plan has also initiated a follow-up review of governance procedures. This is in-line with the Board's belief in the importance of governance for improving business performance and creating an environment based on the principles of transparency and integrity.

## **Second: Nomination and Remuneration Committee:**

The Nominations and Remuneration Committee consists of three non-executive members of SADAFCO board. The committee was formed in its meeting held on 18/01/2011 by a board resolution, which should be presented to the annual general assembly for approval.

### **A) The functions and responsibilities of this committee are the following:**

- 1) Nomination of BOD members to the BOD. This is done in accordance with the policies and procedures, taking into account not to nominate any person previously convicted of a crime involving moral turpitude and dis-honesty.
- 2) Annual review of skills and competencies required for board membership and the preparation of job descriptions, including defining the time to be allocated as a board member
- 3) Review the structure of the board and make recommendations regarding changes that can be made
- 4) Identify weaknesses and strengths in the board, and propose recommendations that are to the interests of the company.
- 5) To ensure on an annual basis the independence of the independent members, and the absence of any conflict of interest if the member holds board membership in another company.
- 6) Develop clear policies for the compensation and benefits of members of the Board of Directors and senior executives, and take into account when developing policies to use criteria linked to performance.

B) **The criteria for selection of remuneration and nomination committee members and their membership period:**

**The committee is composed of a minimum three members . The total should be an odd number at all times . following conditions should apply :**

- 1) A current board member
- 2) There is no direct or in direct relation or interest for him in any contract or agreement of SADAFCO.
- 3) The individual should be fully aware of the corporate governance rules, regulations and CMA rules as well as accounting and finance practices. In addition to that he should also be familiar with the selection criteria of board members in the listed companies.
- 4) Committee membership tenure should not exceed that of the board
- 5)The members choose a committee chairman amongst them as well as a general secretary to document the minutes.
- 6) The committee should meet at least twice a year and whenever required. The meeting is only held if all members are present and it is not allowed to issue a proxy for one another.
- 7) The meeting is called upon a request by the chairman or the general secretary
- 8) All minutes of meetings and communication are kept safe with the general secretary .
- 9) In case of a vacant position in the committee, the board appoint a replacement who will serve the remaining tenure of his predecessor.
- 10) The board holds the right to replace any member at any time and any member has the right to resign whenever he feels like so.

The following table shows the names of the members of Committee and meetings register held during the year 2010/2011:

<b>Name</b>	<b>Capacity</b>	<b>1st meeting 18/01/2011</b>	<b>2nd meeting 28/03/2011</b>
Mr.Faisal Hamad Mubarak Al-Ayyar	Chairman	√	√
Mr. Essa Khalid Essa Al-Saleh	Member	√	√
Mr. Suleiman Saud Jarallah Al-Jarallah	Member	√	√

The table below shows the remuneration and compensation paid to Board Members and Senior Executives :

Amounts in thousands of riyals	Non-executive BOD members	Executives BOD Member	Senior executives*
Salaries and wages	0	355	5,525
Allowances	0	200	2,102
Bonuses	1,200	257	2,801
In-kind benefits	0	0	358
Total	1,200	812	10,786

\* Includes of CEO and CFO.

A table showing the ownership of shares for the BOD and Senior management with the change during the year 2010/2011.

Name	Beginning of the year	End of the year	Change (+/-)
<b>Board of Directors</b>			
HH Sheikh. Hammad Sabah Al-Ahmad	9.784.213	9.784.213	=
Rep: United Industries Company			
Mr. Fayeq Hussain Al-Saleh	1.000	1.000	=
Mr.Faisal Mubarak Al-Ayyar	1.000	1.000	=
Rep: United gulf bank			
Mr.Abdullah Yaqoob Bisharah	1.000	1.000	=
Rep: Kuwait Projects Company			
Mr. Essa Khalid Essa Al-Saleh	9.784.213	9.784.213	=
Rep: United Industries Company			
Mr. Suliman Saud Al-Jar Allah	1.000	1.000	=
Mr. Musaed Abdullah Al-Nasser	11.000	11.000	=
<b>Executive management &amp; their families</b>			
Wout Matthijs	3.000	3.000	=
Khalid Abdulrahman Bakhsh	0	0	=
Mohammed Jameel Attar	0	0	=
Ziyad Abdulaziz Kabli	0	0	=
Steven Satherly	0	0	=
Aiden Tynan	0	0	=
Paul Van Schaick	0	0	=

## Main Shareholders list:

Name	Ownership
United Industries Company	30.1%
Al Samh Trading Co LTD	11.6
Global Investment House	8.9

In regard to any notification on shareholders ownership, referred to in article 30 of the listing rules, SADAFCO didn't receive notification of such from any of the major shareholders that state changes in their ownership; the above is based on tadawul records.

## Related Party Transactions:

Company Name	Country	Nature of Transaction	Value	Closing Balance
Buruj Insurance co.	KSA	Service	6,447	-2,939
Swiss Premium foods Co	Egypt	Current account	-1,642	3,345
Gulf Egypt Agriculture Investment Co	Kuwait	Sale of investment	-5,025	10,814



## Dividend Policy:

Article 35 of the Articles of Association States that annual net profits may be distributed after the deduction of all general expenses and other costs in the following way:

- 1) 10 % of annual net profits are to be set aside for a statutory reserve. The general assembly may choose to stop this reserve once it is equal to half of the company's Capital.
- 2) The general assembly may suggest to the BOD another reserve where a further 10% of net profits may accumulate.
- 3) There may be a distribution to the shareholders thereafter where a first payment /dividend equal to 5% of the paid up capital is payable.
- 4) After the above distributions are made there may be an allocation of 10% of net profits to reward the BOD members, provided that the maximum allowable BOD compensation is not exceeded in compliance with CMA rules and regulations
- 5) All remaining profits may then be distributed to shareholders as an extra dividend.

## Major Decisions and Future Plans:

The company announced on TADAWUL on 04/05/2010 that the Board of Directors approved the feasibility study of integrating all SADAFCO operations and facilities under one roof; amongst the locations is King Abdullah Economic City (KAEC). The project is still in the feasibility stage and under consideration; any updates will be communicated via TADAWUL.

## Risks:

In line with other companies operating in its industry SADAFCO faces some risks that are not out of the ordinary while operating, consisting of:

### **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.

### **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.

### **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.

For more information regarding these risks and ways of management, please refer to the notes of financial statements



## Fines imposed on SADAFCO:

A fine of 50.000 was imposed on 29/08/2010 violating the corporate governance rules and regulation Article 9/A.

## Declarations:

- SADAFCO declares and confirms that its accounts have been prepared according to the correct procedures.
- SADAFCO declares that the internal Auditing has been prepared on a sound basis and has been implemented effectively
- SADAFCO declares that there is no doubt about its ability to continue its operations
- There are no outstanding loans or dues on the company
- The company is fully committed to adhere to the rules and regulations stipulated in the companies' bylaws and ministerial resolutions.
- None of the BOD members and senior management including the CEO and CFO has any shares in the affiliate companies; and no contracts were issued where any of them has a material interest.
- No loans are given to any BOD member
- No shareholder waived his right on the dividends and no senior manager waived his right to receive any salary or compensation.
- All the shares are common stock with equal voting power.
- After the financial statement was Audited by (FAWZAN and Sadhan) –KPMG-, it was confirmed that SADAFCO's accounts were compiled in line with the accounting standards of the Accounting Standards Committee of the Saudi Organization for Certified Public Accountants (SOCPA). The external Auditors report was released without reservation. The financial statements were found to be a true and fair reflection of the company's financial position and in compliance with the requirements of the companies' law and SADAFCO's articles of association.
- The company does not implement any stock options and doesn't have any debt instrument that is converted to a stock.

## Corporate Governance Adherence:

Article	Number of Articles Applied	Fully	Partially	Not Applied	Not Applicable	Comments
Three: General Rights of Shareholders	1	-	1	-	-	Not mentioned in the By Laws
Four: Facilitation of shareholders Exercise of rights and access to information	2	2				
Five: Shareholders right related to the General Assembly	10	9	-	1 (T-3)	-	MOM not provided to CMA
Six: Voting Rights	4	3	-	1 (6/B)	-	Accumulative Voting is not applicable
Seven: Dividends rights of Shareholders	2	2				
Eight: Policies and Procedure related to disclosure	1	0	-	1	-	SADFAFCO follows CMA rules in this regard
Nine: disclosure in the Board of Directors' report	7	7				
Ten: Main Functions of the Board of Directors	17	12	-	5	-	Points not Applied: 1. (A-1) Risk policy in process. 2. (B-1) In process 3. (C-1) We follow CMA corporate gov. 4. (D-1) we adhere to by laws & ministerial resolutions. 5. (W) In process
Eleven: Responsibilities of the Board	8	8				
Twelve: Formation of the Board	9	9				
Thirteen: Committee of the Board	3	3				
Fourteen: Audit Committee	11	11				
Fifteen: Nomination and Remuneration Committee	8	8				
Sixteen: Meetings of the Board	4	4				
Seventeen: Remuneration and Indemnification of Board Members	1	1				
Eighteen: Conflict of Interest within the Board	3	3				
	91	83	0	8	0	

## Closing Statement

The Board of Directors would like to express their sincere thanks and appreciation to shareholders, customers and clients for their trust and support. Thanks are also due to SADAFCO management and employees for their sincere efforts and distinguished performance demonstrated throughout the past year 2010/2011, which has contributed to the results of the current year .

regards  
SADAFCO Board of Directors

## Agenda For 13th AGM 2011

1. Approving the board of directors annual report for the year ended 31/03/2011.
2. Approving the auditors report for the year ended 31/03/2011
3. Approving the closing balances and profit and loss accounts for the period from 01/04/2010 to 31/03/2011.
4. Approving the board's recommendation to distribute dividends total sum of SAR 97,500,000 a 3 riyals dividend per share, which is equivalent to 30% of the capital, to shareholders owning the shares at the closing of the trading day of the AGM.
5. Approving the appointment of the external auditor to review the company's accounts for the financial year from 01/04/2011 to 31/03/2012 and the quarter results.
6. Clearing the liability of the board members for the period from 01/04/2010 to 31/03/2011
7. Electing the board members amongst the nominees for the fifth tenure starting 01/01/2012 to 31/03/2015.
8. Approving the board recommendations regarding the selection criteria for the Nomination and Remuneration committee, membership tenure and committee framework.

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 March 2011**

**with**

**INDEPENDENT AUDITORS' REPORT**



**KPMG Al Fozan & Al Sadhan**

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Licence No. 46/11/323 issued 11/3/1992

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Saudia Dairy & Foodstuff Company (SADAFCO) ("the Company") and its subsidiaries (collectively referred as "the Group") which comprise the consolidated balance sheet as at 31 March 2011 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 24 which form an integral part of the financial statements.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 123 of the Regulations for Companies and the Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

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

- 1) present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2011, and the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and
- 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 financial statements.

For KPMG Al Fozan & Al Sadhan

Abdullah Al Fozan  
License No. 348

12 Jumada Al-Akhirah 1432H  
Corresponding to 15 May 2011



**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**CONSOLIDATED BALANCE SHEET**

As at 31 March 2011

	Note	2011 (SR '000)	2010 (SR '000)
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	337,868	323,267
Accounts receivable	5	228,573	170,275
Deposits and prepayments	6	23,494	15,914
Inventories	7	208,049	149,055
Assets relating to a subsidiary held for disposal	12	8,405	10,507
<b>Total current assets</b>		<b>806,389</b>	<b>669,018</b>
<b>Non-current assets:</b>			
Available for sale investments	8	--	56,428
Other investments	9	243	243
Property, plant and equipment	11	267,652	239,036
<b>Total non-current assets</b>		<b>267,895</b>	<b>295,707</b>
<b>Total assets</b>		<b>1,074,284</b>	<b>964,725</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable		127,735	74,397
Payable to affiliates and shareholders		2,939	5,346
Accruals and other current liabilities		103,537	113,321
Accrued Zakat	18	17,281	16,305
Unpaid dividend		1,844	622
Liabilities relating to a subsidiary held for disposal	12	18,281	18,435
<b>Total current liabilities</b>		<b>271,617</b>	<b>228,426</b>
<b>Non-current liabilities:</b>			
Employees' end of service benefits		71,683	69,174
<b>Total liabilities</b>		<b>343,300</b>	<b>297,600</b>
<b>Equity:</b>			
<b>Equity attributable to the Company's shareholders:</b>			
Capital	13	325,000	325,000
Statutory reserve	13	153,698	140,744
Voluntary reserve	13	62,892	49,938
Foreign currency translation adjustments	13	(1,916)	(1,607)
Unrealised gain on available for sale investment	8	--	15,587
Retained earnings		190,391	136,908
<b>Total shareholders' equity</b>		<b>730,065</b>	<b>666,570</b>
<b>Minority interests</b>		<b>919</b>	<b>555</b>
<b>Total equity</b>		<b>730,984</b>	<b>667,125</b>
<b>Total liabilities and equity</b>		<b>1,074,284</b>	<b>964,725</b>

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Mussad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhsh  
Chief Financial Officer

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF INCOME**

For the year ended 31 March 2011

	Note	For the year ended 31 March	
		2011 (SR '000)	2010 (SR '000)
<b>Continuing operations:</b>			
Net sales		1,134,413	1,022,527
Cost of sales		(766,288)	(657,196)
<b>Gross profit</b>		<b>368,125</b>	<b>365,331</b>
Expenses:			
Selling and distribution	14	(189,221)	(178,381)
General and administrative	15	(53,181)	(60,080)
Total expenses		(242,402)	(238,461)
<b>Operating income</b>		<b>125,723</b>	<b>126,870</b>
Investment income – net		16,072	119,564
Other income/(expenses) – net		5,230	(1,864)
Receivable written off	11(e)	--	(17,000)
Provision for impairment on property, plant and equipment	11(e)	--	(4,645)
Financial charges – net		(827)	(3,012)
<b>Net income from continuing operations before minority interests and Zakat</b>		<b>146,198</b>	<b>219,913</b>
<b>Discontinuing operations:</b>			
Net loss from discontinuing operations	12	(2,488)	(3,724)
<b>Net income before Zakat</b>		<b>143,710</b>	<b>216,189</b>
Zakat charge	18(a)	(13,797)	(12,976)
<b>Net income</b>		<b>129,913</b>	<b>203,213</b>
<b>Attributable to:</b>			
Equity shareholders of the Parent		129,541	203,228
Minority interests		372	(15)
<b>Net income</b>		<b>129,913</b>	<b>203,213</b>
<b>Earnings per share:</b>			
- on operating income - SR	20	3.87	3.90
- on net income after Zakat - SR	20	4.00	6.25
- on net income attributable to equity shareholders of the Parent - SR	20	3.99	6.25

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Mussad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhsh  
Chief Financial Officer



**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 31 March 2011

	2011 (SR '000)	2010 (SR '000)
<b>Operating activities:</b>		
Net income	129,913	203,213
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	39,541	35,432
Amortization and write-off of intangible assets	--	709
Minority interests	(8)	(357)
Gain on disposal of property, plant and equipment	(455)	(2,577)
Realised/unrealised (gain) on available for sale investments/ trading investment	(15,587)	(9,374)
Gain on sale of other investments	--	(109,359)
Receivable written off	--	17,000
Investment income – net of adjustments	--	(2,168)
<b>Changes in operating assets and liabilities:</b>		
(Increase) in accounts receivable	(58,298)	(32,233)
(Increase)/decrease in deposits and prepayments	(7,579)	6,029
(Increase)/decrease in inventories	(58,994)	9,769
Increase in accounts payable	53,338	32,868
(Decrease) in payable to affiliates and shareholders	(2,408)	(3,546)
(Decrease)/ increase in accrued Zakat, accruals and other current liabilities	(8,985)	43,516
Employees' end of service benefits – net	2,506	6,336
Total adjustments	(56,929)	(7,955)
<b>Net cash from operating activities</b>	<b>72,984</b>	<b>195,258</b>
<b>Investing activities:</b>		
Proceeds from sale of investments	56,428	26,947
Net movement in investments	--	2,466
Changes in net assets directly associated with a subsidiary held for disposal	1,949	5,211
Proceeds from sale of other long-term investments (net of zakat)	--	132,686
Proceeds from sale of property, plant and equipment	508	2,611
Purchases of property, plant and equipment	(68,210)	(42,161)
<b>Net cash (used in)/ from investing activities</b>	<b>(9,325)</b>	<b>127,760</b>
<b>Financing activities:</b>		
Dividend paid	(48,750)	(48,750)
Net movement in short-term debts	--	(1,243)
<b>Net cash used in financing activities</b>	<b>(48,750)</b>	<b>(49,993)</b>
<b>Net increase in cash and cash equivalents</b>	<b>14,909</b>	<b>273,025</b>
Effect of exchange rate fluctuations on cash and cash equivalents	(308)	372
Cash and cash equivalents at the beginning of the year	323,267	49,870
<b>Cash and cash equivalents at the end of the year</b>	<b>337,868</b>	<b>323,267</b>

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Mussad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhsh  
Chief Financial Officer

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 March 2011

	Attributable to Equity Shareholders of the Parent									
	Capital (SR 000)	Statutory reserve (SR 000)	Voluntary reserve (SR 000)	Foreign currency translation adjustments (SR 000)	Unrealised gain on available for sale investment (SR 000)	Retained earnings (SR 000)	Total (SR 000)	Minority interests (SR 000)	Total equity (SR 000)	
Balance at 1 April 2010	325,000	140,744	49,938	(1,607)	15,587	136,908	666,570	555	667,125	
Net income for the year	--	--	--	--	--	129,541	129,541	372	129,913	
Dividend declared	--	--	--	--	--	(48,750)	(48,750)	--	(48,750)	
Transfer to reserves	--	12,954	12,954	--	--	(25,908)	--	--	--	
Realised gain relating to shares sold during the period (Note 8)	--	--	--	--	(15,587)	--	(15,587)	--	(15,587)	
Board of directors' remuneration (Note 19 (c))	--	--	--	--	--	(1,400)	(1,400)	--	(1,400)	
Foreign currency translation adjustments	--	--	--	(309)	--	--	(309)	(8)	(317)	
<b>Balance at 31 March 2011</b>	<b>325,000</b>	<b>153,698</b>	<b>62,892</b>	<b>(1,916)</b>	<b>--</b>	<b>190,391</b>	<b>730,065</b>	<b>919</b>	<b>730,984</b>	
Balance at 1 April 2009	325,000	120,421	29,615	(1,979)	4,761	24,476	502,294	731	503,025	
Net income/ (loss) for the year	--	--	--	--	--	203,228	203,228	(15)	203,213	
Transfer to reserves	--	20,323	20,323	--	--	(40,646)	--	--	--	
Realised gain relating to shares sold during the period (Note 8)	--	--	--	--	(9,374)	--	(9,374)	--	(9,374)	
Net changes in fair value of available for sale investments	--	--	--	--	20,200	--	20,200	--	20,200	
Dividend declared	--	--	--	--	--	(48,750)	(48,750)	--	(48,750)	
Board of directors' remuneration (Note 19 (c))	--	--	--	--	--	(1,400)	(1,400)	--	(1,400)	
Foreign currency translation adjustments	--	--	--	372	--	--	372	(161)	211	
Balance at 31 March 2010	325,000	140,744	49,938	(1,607)	15,587	136,908	666,570	555	667,125	

The accompanying notes 1 to 24 form an integral part of these consolidated financial statements.

Musaad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhash  
Chief Financial Officer

## SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2011

#### 1. ORGANIZATION AND PRINCIPAL ACTIVITIES

- (a) 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 dated 21 Rabi Al-Akhar 1396H corresponding to 21 April 1976. The Company and its subsidiaries (listed in Note 1(d)), collectively described as the Group in these consolidated financial statements, are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in Kingdom of Saudi Arabia and certain Gulf and Arab countries.
- (b) 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 sold this subsidiary.
- (c) Another subsidiary, Swiss Premium Foods Company SAE, Egypt is engaged in manufacturing and producing ice cream products. During the quarter ended 31 December 2008, the Board of Directors decided to sell the subsidiary (see note 12). On 7 October 2009, the shareholders of Swiss Premium Foods Company SAE, Egypt, have decided to liquidate the entity. On 31 December 2009, the Ministry of Commerce in Egypt has notified the entity as ‘under liquidation’ (see note 12).
- (d) At 31 March 2011, the Company had investments in the following subsidiaries (collectively described as the “the Group”):

<u>Name</u>	<u>Principal activities</u>	<u>Country of incorporation</u>	<u>SADAFCO’s beneficial interest</u>
SADAFCO Foodstuff Company LLC, UAE	Foodstuff and dairy products	United Arab Emirates (UAE)	100%
SADAFCO Bahrain Company, WLL, Bahrain	Foodstuff and dairy products	Bahrain	100%
SADAFCO Jordan Foodstuff Company LLC, Jordan	Foodstuff and dairy products	Jordan	100%
SADAFCO Qatar	Foodstuff and dairy products	Qatar	75%
National Buildings Real Estate Company*	Real Estate	Kingdom of Saudi Arabia	100%
United Gulfers Logistics Company*	Logistics	Kingdom of Saudi Arabia	100%
National Sight Holding Company*	Investment Company	Kingdom of Saudi Arabia	100%

\*The above subsidiaries have not yet commenced their operations.

Mussad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhsh  
Chief Financial Officer

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2011

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**1. ORGANIZATION AND PRINCIPAL ACTIVITIES (continued)**

Other subsidiaries:

- Arab Company for Animal Produce SAE, Egypt (see note 9b)
- Swiss Premium Foods Company SAE, Egypt (see note 12)

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

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The accompanying consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

**(b) Basis of measurement**

These consolidated financial statements have been prepared on historical cost basis, using the accrual basis of accounting and the going concern concept.

**(c) Functional and presentation currency**

These consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency. All financial information presented in SR has been rounded to the nearest thousand.

**(d) Use of estimates and judgments**

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 March 2011

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**2. BASIS OF PREPARATION (Continued)**

**(d) Use of estimates and judgments (continued)**

(i) Impairment of available for sale investments

The Group exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Group also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(ii) Impairment of non-financial assets

The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

(iii) Provision for impairment of trade receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered as indicators that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2011

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**2. BASIS OF PREPARATION (continued)**

- (iv) Provision for slow moving inventory items

The Group makes a provision for slow moving inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies have been consistently applied by the management of the Group:

**(a) Basis of consolidation**

These consolidated financial statements include the consolidated financial statements of the Company and its subsidiaries set forth in note 1 above.

**(b) Investments in subsidiaries**

**(c)**

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 financial transactions resulting from transactions between the Company and the subsidiaries are eliminated in preparing these consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are also eliminated on consolidation.

The attributable equity interest of third parties in the Group is included under the minority interests caption in these consolidated financial statements.

**(c) Account receivables**

Account receivables are stated at original invoice amount less provisions made for amounts which in the opinion of the management may not be received. Bad debts are written off when identified.

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Mussad Abdullah Al Nassar  
Member Board of Directors

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Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

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Khaled A. Bakhsh  
Chief Financial Officer

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2011

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(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. 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.

**(e) Available for sale investments**

Investments which are neither bought with the intention of being held to maturity nor for trading purposes are classified as available for sale and are stated at fair value and included under current assets unless they are not intended to be sold in the next fiscal year. Changes in the fair value are credited or charged to the consolidated statement of changes in shareholders' equity. However, any non-temporary decline in value is charged to the consolidated statement of income. Fair value is determined by reference to the market value.

Dividend income is recognised when the right to receive the dividend is established.

**(f) Property, plant and equipment and depreciation**

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated statement of income when incurred.

Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of individual item of property, plant and equipment.

The estimated useful lives of assets for current and comparative periods are as follow:

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

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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For the year ended 31 March 2011

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Zakat and income tax**

The Company and its Saudi Arabian subsidiaries are subject to Zakat and income-tax in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). The foreign subsidiaries are subject to tax regulations in their respective countries of incorporation. Zakat and income tax are charged to consolidated statement of income.

**(h) Provisions**

A provision is recognized if, as a result of past events, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit, will be required to settle the obligation.

**(i) Employees' end of service benefits**

Employees' end of service benefits, calculated in accordance with labour regulations of the countries of incorporation of the Group member companies, are accrued and charged to consolidated statement of income.

**(j) 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.

**(k) 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.

**(l) Foreign currencies**

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.

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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For the year ended 31 March 2011

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(l) Foreign currencies (continued)**

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.

**(m) 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.

**(n) 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.

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at 31 March comprise the following:

	<u>2011</u> (SR'000)	<u>2010</u> (SR'000)
Cash and cheques in hand	12,830	7,892
Balance with banks in current accounts and short-term deposits	325,038	315,375
	<u>337,868</u>	<u>323,267</u>

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**5. ACCOUNTS RECEIVABLE**

Accounts receivable at 31 March comprise the following:

	<u>2011</u> (SR 000)	<u>2010</u> (SR 000)
Trade receivables	168,475	124,998
Less: Provision for doubtful accounts	<u>(14,861)</u>	<u>(12,959)</u>
Net trade receivables	<u>153,614</u>	<u>112,039</u>
Advances and other receivables	62,754	39,768
Less: Provision for doubtful accounts	<u>(1,995)</u>	<u>(2,358)</u>
Net advances and other receivables	<u>60,759</u>	<u>37,410</u>
Related parties (Note 19)	<u>14,200</u>	<u>20,826</u>
	<u><u>228,573</u></u>	<u><u>170,275</u></u>

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

	<u>2011</u> (SR'000)	<u>2010</u> (SR'000)
At 1 April	30,298	27,041
Charge for the year	<u>1,541</u>	<u>3,257</u>
At 31 March	<u><u>31,839</u></u>	<u><u>30,298</u></u>

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

	<i>Neither past due nor impaired</i>	<i>&lt; 30 days</i>	<i>30 – 60 days</i>	<i>60 – 90 days</i>	<i>90 – 120 days</i>
	<i>Total</i>	<i>(SR 000)</i>	<i>(SR 000)</i>	<i>(SR 000)</i>	<i>(SR 000)</i>
<b>2011</b>	<b>153,614</b>	<b>124,670</b>	<b>15,678</b>	<b>8,718</b>	<b>3,455</b>
2010	112,039	80,026	16,655	9,509	3,978

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.

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**6. DEPOSITS AND PREPAYMENTS**

Deposits and prepayments at 31 March 2011 include a sum of SR 1,245 thousand (2010: SR 1,231 thousand) representing margin deposits with the banks against guarantees issued by the Group's bankers.

**7. INVENTORIES**

Inventories at 31 March comprise the following:

	<u>2011</u> (SR'000)	<u>2010</u> (SR'000)
Raw and packing materials	64,019	55,145
Finished goods	43,847	36,163
Spare parts, supplies and other items	9,173	9,008
Goods-in-transit	91,010	48,739
	<u>208,049</u>	<u>149,055</u>

**8. AVAILABLE FOR SALE INVESTMENTS**

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

	<u>2011</u> (SR 000)	<u>2010</u> (SR 000)
<b>Cost:</b>		
At the beginning of the period, net of impairment	40,841	58,414
Disposals during the year	<u>(40,841)</u>	<u>(17,573)</u>
	--	40,841
<b>Valuation adjustment in equity:</b>		
At the beginning of the year	15,587	4,761
Net realised gain on disposal of investments	<u>(15,587)</u>	<u>(9,374)</u>
Net change in fair value taken to consolidated statement of changes in equity	--	20,200
Sub total	<u>--</u>	<u>15,587</u>
<b>At the end of the period</b>	<u>--</u>	<u>56,428</u>

During the year ended March 31, 2011 the Company sold its available for sale investments for SR 56,428 thousand (carrying value SR 40,841 thousand), resulting in a gain of SR 15,587 thousand.

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 March 2011

**9. OTHER INVESTMENTS**

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

	<b>2011</b>	2010
	<b>(SR'000)</b>	(SR'000)
Other investments available for sale (unquoted)	<b>1,336</b>	1,336
Less: Provision for non-temporary decline in value	<b>(1,093)</b>	(1,093)
	<b>243</b>	243

- (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 thousand is due in 4 equal annual instalments commencing from 28 December 2009 and concluding on 28 December 2012.

As at 31 March 2011, the Company has a receivable of SR 10,814 thousands against sale of investments under the agreement.

- (c) SADAFCO's ownership interest in some of the investments is held through parties nominated by the Company.
- (d) 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". The legal formalities in respect of sale of ownership interest were completed during the year ended 31 March 2010. Gross sale proceeds relating to the above transaction amounted to SR 135,162 thousand 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 (March 2009: SR 25,803 thousand). Consequently, a gain of SR 109,359 thousand was recognised and the investment was derecognized from the books during the year ended 31 March 2010. The Zakat deducted from sale proceeds was included under Zakat charge in the consolidated statement of income.

**10. INTANGIBLE ASSETS**

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

	<b>2011</b>	2010
	<b>(SR'000)</b>	(SR'000)
Total amount	--	6,370
Amortization to-date	--	(6,370)
Balance at end of the year	--	--

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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For the year ended 31 March 2011

**11. PROPERTY, PLANT AND EQUIPMENT**

(a) The movement in property, plant and equipment for the year ended 31 March, 2011 is analysed as follows:

	Land and buildings (SR'000)	Machinery and equipment (SR'000)	Vehicles and trailers (SR'000)	Furniture, fixtures and office equipment (SR'000)	Capital work-in-progress (SR'000)	Total (SR'000)
<b>Cost:</b>						
Balance at April 1, 2010	227,279	535,365	133,531	49,958	25,757	971,890
Additions during the year	4,545	9,535	24,731	881	28,518	68,210
Disposals during the year	--	(1,663)	(875)	--	--	(2,538)
Transfers from capital work-in-progress	446	21,984	2,523	10,966	(35,919)	--
Effect of fluctuations in foreign exchange rates	127	109	160	87	--	483
<b>Balance at March 31, 2011</b>	<b>232,397</b>	<b>565,330</b>	<b>160,070</b>	<b>61,892</b>	<b>18,356</b>	<b>1,038,045</b>
<b>Accumulated depreciation:</b>						
Balance at April 1, 2010	138,193	432,874	114,785	47,002	--	732,854
Charge for the year	9,947	21,839	6,961	794	--	39,541
Disposals	--	(1,171)	(837)	--	--	(2,008)
Effect of fluctuations in foreign exchange rates	(8)	84	(27)	(43)	--	6
Balance at March 31, 2011	148,132	453,626	120,882	47,753	--	770,393
<b>Net book amounts:</b>						
<b>At 31 March 2011</b>	<b>84,265</b>	<b>111,704</b>	<b>39,188</b>	<b>14,139</b>	<b>18,356</b>	<b>267,652</b>
At 31 March 2010	89,086	102,491	18,746	2,956	25,757	239,036

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2011

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**11. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

	<u>2011</u> (SR'000)	<u>2010</u> (SR'000)
Cost of sales	23,415	18,305
Selling and distribution expenses (note 14)	15,479	16,163
General and administrative expenses (note 15)	647	964
	<u>39,541</u>	<u>35,432</u>

- (d) The ownership interest of the Company in certain freehold land held in Madinah and Riyadh amounting to SR 6,183 thousand (2010: SR 6,183 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. As the completion of legal formalities for the transfer of land were delayed, both parties mutually agreed to revoke the contract in respect of sale of land on 1 February 2010. Furthermore, during the year ended March 31, 2010, the management 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.

**12. DISCONTINUING OPERATIONS (SUBSIDIARY 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 (1c)). SPF is engaged in manufacturing and production of ice cream products.

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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For the year ended 31 March 2011

**12. DISCONTINUING OPERATIONS (SUBSIDIARY HELD FOR DISPOSAL)**  
**(Continued)**

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

	For the year ended 31 March,	
	<u>2011</u> (SR '000)	<u>2010</u> (SR '000)
<b>Revenue</b>	--	738
Cost of sales	--	(1,502)
Gross (loss)	--	(764)
<b>Expenses</b>	<b>(2,488)</b>	(5,128)
Net income of SNZMP for the period	--	2,168
<b>Net loss from discontinuing operations</b>	<b>(2,488)</b>	<b>(3,724)</b>

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

	<u>2011</u> (SR '000)	<u>2010</u> (SR '000)
<b><u>Assets:</u></b>		
Property, plant and equipment	4,585	9,631
Receivables	101	128
Others	3,719	748
<b>Assets classified as held for disposal</b>	<b>8,405</b>	10,507
<b><u>Liabilities:</u></b>		
Payables	13,178	13,882
Accrued liabilities	5,103	4,532
Others	--	21
<b>Liabilities classified as held for disposal</b>	<b>18,281</b>	18,435
<b>Net liabilities directly associated with subsidiary held for disposal</b>	<b>(9,876)</b>	<b>(7,928)</b>

The Board of Directors of the Company have decided to liquidate the investment in SPF.

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2011

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**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:

	<u>2011</u>	<u>2010</u>
	(SR'000)	(SR'000)
Employee costs	66,939	62,069
Advertising and sales promotion	78,871	72,599
Depreciation (note 11c)	15,479	16,163
Repairs and maintenance costs	8,262	8,375
Insurance	3,580	2,358
Rent	1,536	2,426
Communication	2,621	1,786
Travel and other expenses	3,378	2,642
Others	8,555	9,963
	<u>189,221</u>	<u>178,381</u>

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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For the year ended 31 March 2011

**15. GENERAL AND ADMINISTRATIVE EXPENSES**

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

	<u>2011</u> (SR'000)	<u>2010</u> (SR'000)
Employee costs	40,873	38,502
Depreciation (note 11c)	647	964
Consultancy	4,231	9,871
Travel and other expenses	2,743	2,527
Others	4,687	8,216
	<u>53,181</u>	<u>60,080</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:

	<u>2011</u> (SR'000)	<u>2010</u> (SR'000)
Not later than one year	1,906	489
Later than one year but not later than five years	37	740
	<u>1,943</u>	<u>1,229</u>

**17. COMMITMENTS AND CONTINGENCIES**

- (a) At 31 March 2011, SADAFCO and its subsidiaries have outstanding commitments for future capital expenditures amounting to SR 10,641 thousand (2010: SR 25,090 thousand).
- (b) As at 31 March 2011, SADAFCO has a contingent liability of SR13,162 thousand (2010: SR 13,497 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). During the year ended 31 March 2011, the Company cancelled the corporate guarantee in favour of the bank from which it had secured banking facilities for one of its subsidiaries, as the loan has been repaid (2010: SR 1,077 thousand).

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**17. COMMITMENTS AND CONTINGENCIES (continued)**

- (c) At 31 March 2011, SADAFCO had outstanding interest rate swap contracts with a notional amount of SR 100,000 thousand (2010: SR 100,000 thousand) and negative fair value of SR 6,245 thousand (2010: SR 6,948 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:

	<u>2011</u> (SR'000)	<u>2010</u> (SR'000)
Relating to SADAFCO	13,797	12,476
Relating to disposal of investment in Saudi New Zealand Milk Products Company Ltd	--	500
	<u>13,797</u>	<u>12,976</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:

	<u>2011</u> (SR'000)	<u>2010</u> (SR'000)
Capital	325,000	325,000
Adjusted net income	133,958	219,469
Adjusted reserves, provisions and others at the beginning of the year	434,394	265,221
Deduction for long-term assets	(292,712)	(235,028)
Deduction for investments	--	(56,428)
Deduction for dividend paid	(48,750)	(48,750)
	<u>551,890</u>	<u>469,484</u>

(c) **Accrued Zakat**

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

	<u>2011</u> (SR'000)	<u>2010</u> (SR'000)
Balance at beginning of the year	16,305	13,817
Payments during the year	(12,821)	(10,488)
Charge for the year	13,797	12,976
Balance at end of the year	<u>17,281</u>	<u>16,305</u>

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## SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)

(A Saudi Joint Stock Company)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2011

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#### 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 of 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 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 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 submitted with 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.

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**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
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**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) In addition to disclosures, set out in notes 1(c), 9(b), 9(d), 11(e) and 12, related party transactions for the year ended 31 March and balances arising therefrom are described as under:

<u>Transactions with</u>	<u>Nature of transaction</u>	<u>Amount of transactions</u>		<u>Closing balance Receivable/(Payable)</u>	
		<u>2011</u> (SR 000)	<u>2010</u> (SR 000)	<u>2011</u> (SR 000)	<u>2010</u> (SR 000)
Affiliates/Jointly controlled entity	Purchase of goods and services	(6,447)	(31,459)	(2,939)	(2,346)
	Net settlement against purchase of goods and services	5,854	38,005	--	--
	Refund payable to an affiliate	--	(3,000)	--	(3,000)
				<u>(2,939)</u>	<u>(5,346)</u>
Affiliates	Advance payment accounts	41	(75)	41	--
Affiliates	Current account	(1,642)	3,909	3,345	4,987
Affiliate	Sale of a subsidiary	(5,025)	(5,252)	10,814	15,839
Affiliate	Receivable written off	--	(17,000)	--	--
Affiliate	Deposit with Fund Manager, net	--	(1,125)	--	--
	Realised/unrealised gain	--	7,380	--	--
	Investment sold	--	(26,947)	--	--
				<u>14,200</u>	<u>20,826</u>

- (c) Board of Directors' remuneration amounting to SR 1,400 thousand (2010: SR 1,400 thousand), 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.
- (d) Subsequent to the year ended March 31, 2011, the Company has placed SR 300 million (SR 150 million for a period of 3 months and balance SR 150 million for a period of one year) as a Murabaha deposit with United Gulf Bank (Bahrain), a related party at commercial terms.

Mussad Abdullah Al Nassar  
Member Board of Directors

Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

Khaled A. Bakhsh  
Chief Financial Officer

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)**  
(A Saudi Joint Stock Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 March 2011

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**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 2011 was 32.5 million (31 March 2010: 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 Annual General Meeting of the Company held on June 26, 2010, 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.

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.

**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.

**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 5).

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Mussad Abdullah Al Nassar  
Member Board of Directors

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Matthijs Waltherus Cornelis Petrus  
Chief Executive Officer

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Khaled A. Bakhsh  
Chief Financial Officer

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**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 22,399 thousand (2010: SR 12,206 thousand) due in foreign currencies, mainly in US Dollars.

**23. 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.

**24. SEGMENT REPORTING**

As the Company's business activity primarily falls within a single business and geographical segment, no additional disclosure is provided under segment reporting.

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Mussad Abdullah Al Nassar  
Member Board of Directors

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