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الدار لتدقيق الحسابات  
عبد الله البصري وشركاه  
عبد الله بن محمد البصري  
( محاسب قانوني - ترخيص رقم ١٧١ )



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**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AND AUDITORS' REPORT FOR THE YEARS**  
**ENDED 31 DECEMBER 2004, 2003 AND 2002**

**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH – SAUDI ARABIA**

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## AUDITORS' REPORT

To the Owners of  
Almarai Company Limited  
A Limited Liability Company  
Riyadh - Saudi Arabia

We have audited the accompanying consolidated balance sheets of **ALMARAI COMPANY LIMITED** – a Limited Liability Company – as of 31 December 2004, 2003 and 2002, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the years ended 31 December 2004, 2003 and 2002, and the accompanying notes which are an integral part of these consolidated financial statements which were prepared by the management in accordance with Article 175 of the Companies Regulations and presented to us together with all the information and explanations which we requested. We express our opinion on these consolidated financial statements based on our audits and the information and explanations we obtained which we considered necessary for the purpose of our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **ALMARAI COMPANY LIMITED** as of 31 December 2004, 2003 and 2002, and the results of its operations and its cash flows for the years ended 31 December 2004, 2003 and 2002 based on the presentation and disclosure of the information included in the consolidated financial statements and in conformity with generally accepted accounting principles in the Kingdom of Saudi Arabia as summarised in Note 3.

We are also of the opinion that the preparation and presentation of the above consolidated financial statements comply with the Commercial Code and the Company's by-laws and are in agreement with the accounting records which are computerised in accordance with the related Commercial Books Regulations.



Abdullah M. Al-Basri  
Certified Accountant  
Licence No. 171  
Aldar Audit Bureau  
Abdullah M. Al-Basri & Co.



Riyadh, 7 DI' Hijjah 1425 A.H.  
Corresponding to 18 January 2005 A.D.

**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2004, 2003 AND 2002**

	<u>Notes</u>	<u>2004</u> SAR '000	<u>2003</u> SAR '000	<u>2002</u> SAR '000
<b><u>Current Assets</u></b>				
Cash and Bank Balances	4	60,954	48,762	47,999
Receivables and Prepayments	5	186,594	178,948	167,639
Inventories	6	243,239	193,137	141,454
<b>Total Current Assets</b>		<b><u>490,787</u></b>	<b><u>420,847</u></b>	<b><u>357,092</u></b>
<b><u>Current Liabilities</u></b>				
Payables and Accruals	7	286,471	224,100	207,058
Short Term Loans	8	22,074	26,936	76,706
<b>Total Current Liabilities</b>		<b><u>308,545</u></b>	<b><u>251,036</u></b>	<b><u>283,764</u></b>
<b>NET CURRENT ASSETS</b>		<b><u>182,242</u></b>	<b><u>169,811</u></b>	<b><u>73,328</u></b>
<b><u>Non Current Assets</u></b>				
Intangible Assets	9	-	22,587	40,914
Fixed Assets	10	1,909,185	1,563,816	1,243,217
<b>Total Non Current Assets</b>		<b><u>1,909,185</u></b>	<b><u>1,586,403</u></b>	<b><u>1,284,131</u></b>
<b><u>Non Current Liabilities</u></b>				
Long Term Loans	8	745,350	479,424	160,220
Employees' Termination Benefits		53,420	54,435	63,182
<b>Total Non Current Liabilities</b>		<b><u>798,770</u></b>	<b><u>533,859</u></b>	<b><u>223,402</u></b>
<b>NET ASSETS</b>		<b><u>1,292,657</u></b>	<b><u>1,222,355</u></b>	<b><u>1,134,057</u></b>
<b>SHAREHOLDER'S EQUITY</b>				
Share Capital	11	750,000	500,000	200,000
Statutory Reserve	12	173,860	136,830	100,000
Retained Earnings		368,797	585,525	834,057
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b><u>1,292,657</u></b>	<b><u>1,222,355</u></b>	<b><u>1,134,057</u></b>

"THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT"

**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002**

	<u>Notes</u>	<u>2004</u> SAR '000	<u>2003</u> SAR '000	<u>2002</u> SAR '000
Sales	13	1,885,112	1,753,939	1,600,760
Cost of Sales	15	(1,126,588)	(1,018,576)	(913,446)
<b>Gross Profit</b>		<b>758,524</b>	<b>735,363</b>	<b>687,314</b>
Selling & Distribution Expenses	16	(275,612)	(257,701)	(234,921)
General & Administration Expenses	17	(86,294)	(80,760)	(81,535)
<b>Net Income before Bank Charges &amp; Zakat</b>		<b>396,618</b>	<b>396,902</b>	<b>370,858</b>
Bank Charges		(16,872)	(18,809)	(9,116)
<b>Net Income before Zakat</b>		<b>379,746</b>	<b>378,093</b>	<b>361,742</b>
Zakat	18	(9,444)	(9,795)	(9,660)
<b>Net Income</b>		<b>370,302</b>	<b>368,298</b>	<b>352,082</b>

“THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT”

**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002**

	<u>Notes</u>	<u>2004</u> SAR '000	<u>2003</u> SAR '000	<u>2002</u> SAR '000
<b><u>Cash Flow from Operating Activities</u></b>				
<b>Net Income</b>		<b>370,302</b>	<b>368,298</b>	<b>352,082</b>
Depreciation & Amortisation	19	126,923	131,101	113,410
Bank Charges		16,872	18,809	9,116
Change in Employees' Termination Benefits		(1,015)	(8,747)	9,639
<b>Operating Cash Flow Before Changes in Working Capital</b>		<b>513,082</b>	<b>509,461</b>	<b>484,247</b>
Changes in:				
Receivables & Prepayments		(7,646)	(11,309)	(14,898)
Inventories		(50,102)	(51,683)	27,367
Payables & Accruals		62,371	17,042	4,116
<b>Cash Flow from/(used by) Changes in Working Capital</b>		<b>4,623</b>	<b>(45,950)</b>	<b>16,585</b>
<b>Cash Flow from Operating Activities</b>		<b>517,705</b>	<b>463,511</b>	<b>500,832</b>
<b><u>Cash Flow used in Investing Activities</u></b>				
Additions to Fixed Assets		(493,605)	(467,737)	(253,412)
Proceeds from the Sale of Fixed Assets		43,900	34,364	37,587
<b>Cash Flow used in Investing Activities</b>		<b>(449,705)</b>	<b>(433,373)</b>	<b>(215,825)</b>
<b><u>Cash Flow used in Financing Activities</u></b>				
Increase/(Decrease) in Loans		261,064	269,434	(873)
Dividends Paid during the Year		(300,000)	(280,000)	(257,425)
Bank Charges		(16,872)	(18,809)	(9,116)
<b>Cash Flow used in Financing Activities</b>		<b>(55,808)</b>	<b>(29,375)</b>	<b>(267,414)</b>
<b>Increase in Cash and Bank Balances</b>		<b>12,192</b>	<b>763</b>	<b>17,593</b>
<b>Cash and Bank Balances at 1 January</b>		<b>48,762</b>	<b>47,999</b>	<b>30,406</b>
<b>Cash and Bank Balances at 31 December</b>		<b>60,954</b>	<b>48,762</b>	<b>47,999</b>

"THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT"

**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002**

	<u>2004</u> SAR '000	<u>2003</u> SAR '000	<u>2002</u> SAR '000
<b><u>Share Capital</u></b>			
Balance at 1 January	500,000	200,000	200,000
Transfer from Retained Earnings	250,000	300,000	-
<b>Balance at 31 December</b>	<b><u>750,000</u></b>	<b><u>500,000</u></b>	<b><u>200,000</u></b>
<b><u>Statutory Reserve</u></b>			
Balance at 1 January	136,830	100,000	100,000
Transfer from Retained Earnings	37,030	36,830	-
<b>Balance at 31 December</b>	<b><u>173,860</u></b>	<b><u>136,830</u></b>	<b><u>100,000</u></b>
<b><u>Retained Earnings</u></b>			
Balance at 1 January	585,525	834,057	731,975
Net Income	370,302	368,298	352,082
Transfer to Share Capital	(250,000)	(300,000)	-
Transfer to Statutory Reserve	(37,030)	(36,830)	-
Dividends Paid	(300,000)	(280,000)	(250,000)
<b>Balance at 31 December</b>	<b><u>368,797</u></b>	<b><u>585,525</u></b>	<b><u>834,057</u></b>

"THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THIS STATEMENT"

**ALMARAI COMPANY LIMITED**  
**A LIMITED LIABILITY COMPANY**  
**RIYADH - SAUDI ARABIA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**1. THE COMPANY AND ITS BUSINESS DESCRIPTION**

Almarai Company Limited (the "Company") is a Limited Liability Company and was established on 19 Dī' Hijrah 1411 A.H. corresponding to 1 July 1991 and operates under Commercial Registration No. 1010084223.

The Company is a major integrated consumer food company in the Middle East with leadership positions in Saudi Arabia and the neighbouring Gulf Cooperative Council (GCC) countries. All raw milk production and related processing along with food manufacturing activities are undertaken in Saudi Arabia. Final consumer products are distributed from the manufacturing facilities in Saudi Arabia to local distribution centres by the Company's long haul distribution fleet.

The distribution centres in the GCC countries (except for Bahrain) are managed by the Company and operate within Distributor Agency Agreements as follows:

Kuwait	- Al Kharafi Brothers Dairy Products Company Limited
Qatar	- Khalid for Foodstuff and Trading Company
United Arab Emirates	- Bustan Al Khaleej Establishment
Oman	- Far East Agency

The Company established Almarai Company Bahrain W.L.L., a 100% owned subsidiary in Bahrain on 1st January 2004. Prior to this, the Company conducted its business in Bahrain within an agreement with Al Jawdar Trading Establishment.

The Company's Head Office is located at the following address:

Exit 7, North Circle Road  
Al Izdihar District  
P.O. Box 8524  
Riyadh 11492  
Kingdom of Saudi Arabia

**2. BASIS OF ACCOUNTING, PREPARATION, CONSOLIDATION & PRESENTATION OF FINANCIAL STATEMENTS**

- (a) The consolidated financial statements have been prepared on the accrual basis under the historical cost convention and in compliance with the accounting standards issued by the Saudi Organisation for Certified Public Accountants (SOCPA).
- (b) The statutory records are maintained in Arabic.
- (c) When necessary, prior year comparatives have been regrouped on a basis consistent with current year classification.
- (d) The consolidated financial statements reflect all business operations undertaken on behalf of the Company and its subsidiaries and the assets and liabilities beneficially held by the Company.
- (e) The figures in these consolidated financial statements are rounded to the nearest thousand.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Use of Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires the use of estimates and assumptions. Such estimates and assumptions may affect the balances reported for certain assets and liabilities as well as the disclosure of certain contingent assets and liabilities as at the Balance Sheet date. Any estimates or assumptions affecting assets and liabilities may also affect the reported revenues and expenses for the same reporting year. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

#### **B. Revenue Recognition**

Products are sold principally on a sale or return basis. Revenue is recognised on delivery of products to customers by the Company or its Distributors, at which time risk and title passes, subject to the physical return of unsold products. Adjustment is made in respect of known actual returns.

#### **C. Cash and Bank Balances**

Time deposits purchased with original maturities of less than three months are included in Cash at Bank.

#### **D. Accounts Receivable**

Accounts receivable are carried at the original invoiced amount less any provision made for doubtful debts. Provision is made for all debts for which the collection is considered doubtful.

#### **E. Inventory Valuation**

Inventory is stated at the lower of cost and net realisable value. In general, cost is determined on a weighted average basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure based on the normal level of activity. Net realisable value comprises estimated price less further production costs to completion and appropriate selling and distribution costs. Provision is made, where necessary, for obsolete, slow moving and defective stocks.

#### **F. Goodwill**

Goodwill represents the difference between the cost of businesses acquired and the aggregate of the fair values of their identifiable net assets at the date of acquisition. Goodwill arising on acquisitions is capitalised on the consolidated Balance Sheet and amortised to the consolidated Statement of Income in equal annual instalments over its expected useful life, not exceeding twenty years. The carrying value of goodwill is reviewed annually and adjustments are made for any permanent diminution in value.

#### **G. Fixed Assets**

Fixed assets are stated at cost less accumulated depreciation. There is no open market for dairy livestock in the GCC against which to measure fair value. Accordingly, dairy livestock are treated as fixed assets and included in the accounts at their cost of purchase or at the cost of rearing to the point of first calving, less accumulated depreciation. The cost of dairy youngstock is determined by the cost of rearing to their respective age.

Cows in the dairy herd are depreciated to their estimated residual value, at rates between 10% - 25% based on their expected continuing useful life. Other fixed assets are depreciated on a straight line basis at the following annual rates:

Buildings	3% - 10%
Plant, Machinery & Equipment	5% - 33%
Motor Vehicles	15% - 25%
Land is not depreciated	

#### **H. Conversion of Foreign Currency Transactions**

During the financial year foreign currency transactions are converted and booked in Saudi Riyals at standard exchange rates which are periodically set to reflect average market rates or forward rates if the transactions were so covered. At the Balance Sheet date, assets and liabilities denominated in foreign currencies are converted into Saudi Riyals at the exchange rates ruling on such date or at the forward purchase rates if so covered. Any resulting exchange variances are charged or credited to the consolidated Statement of Income as appropriate. Gains and losses on derivative financial instruments used to hedge foreign currency exposures are recognised in the consolidated Statement of Income when the underlying transaction occurs.

#### **I. Employees' Termination Benefits**

Employees' termination benefits are payable as a lump sum to all employees employed under the terms and conditions of the Saudi Labour and Workman Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the Balance Sheet date. Termination payments are based on the employees' final salaries and allowances and their cumulative years of service, in compliance with the conditions stated in the laws of the Kingdom of Saudi Arabia.

#### **J. Selling, Distribution, General & Administration Expenses**

Selling, Distribution, General & Administration Expenses include direct and indirect costs not specifically part of Cost of Sales as required under generally accepted accounting principles. Allocations between Cost of Sales and Selling, Distribution, General & Administration Expenses, when required, are made on a consistent basis. The Company charges payments in respect of long term agreements with customers and Distributors to selling and distribution expenses.

#### **K. Management Fees**

The Company credits fees charged in respect of the management of Arable Farms to General & Administration Expenses.

#### **L. Zakat**

Zakat is provided for in the consolidated Balance Sheet on the basis of an estimated Zakat assessment carried out in accordance with Saudi Department of Zakat and Income Tax (DZIT) regulations. Adjustments arising from final Zakat assessments are recorded in the year in which such assessments are made.

#### **M. Operating Leases**

Rentals in respect of operating leases are charged to the consolidated Statement of Income over the terms of the leases.



	<u>2004</u>	<u>2003</u>	<u>2002</u>
	SAR '000	SAR '000	SAR '000
<b>4. <u>CASH AND BANK BALANCES</u></b>			
Cash at Bank	46,109	40,660	32,605
Cash in Hand	14,845	8,102	15,394
Total	<u>60,954</u>	<u>48,762</u>	<u>47,999</u>
<b>5. <u>RECEIVABLES AND PREPAYMENTS</u></b>			
Net Accounts Receivable	124,863	134,377	126,629
Prepayments	61,731	44,571	41,010
Total	<u>186,594</u>	<u>178,948</u>	<u>167,639</u>
<b>6. <u>INVENTORIES</u></b>			
Raw Materials	176,382	146,127	102,884
Work-in-Progress	1,880	1,437	2,284
Finished Goods	64,977	45,573	36,286
Total	<u>243,239</u>	<u>193,137</u>	<u>141,454</u>
<b>7. <u>PAYABLES AND ACCRUALS</u></b>			
Accounts Payable	170,238	99,687	84,587
Accrued Expenses	106,552	114,551	112,947
Zakat	9,681	9,862	9,524
Total	<u>286,471</u>	<u>224,100</u>	<u>207,058</u>

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	SAR '000	SAR '000	SAR '000
<b>8. <u>LOANS</u></b>			
(i) Saudi Industrial Development Fund	220,350	77,520	70,780
(ii) Saudi Arabian Agricultural Bank	12,074	13,840	15,607
(iii) Commercial Banks	535,000	415,000	150,539
Total	<u>767,424</u>	<u>506,360</u>	<u>236,926</u>

- A. The borrowings from the Saudi Industrial Development Fund are secured by several guarantees of the shareholders in proportion to their shareholdings and:
- (i) in respect of borrowings amounting to SAR 204.5 million, SAR 71.5 million and SAR 65.7 million for 2004, 2003 and 2002 respectively by a mortgage on specific assets.
- (ii) in respect of borrowings amounting to SAR 15.9 million, SAR 6.0 million and SAR 5.1 million for 2004, 2003 and 2002 respectively by a bank payment guarantee.

B. The borrowings from Saudi Arabian Agricultural Bank are secured by a bank payment guarantee.

C. The borrowings from commercial banks are secured by promissory notes given by the Company.

D. Maturity of Financial Liabilities

Less than one year	22,074	26,936	76,706
One to two years	228,500	250,714	73,533
Two to five years	478,220	214,710	86,687
Greater than five years	38,630	14,000	-
Total	<u>767,424</u>	<u>506,360</u>	<u>236,926</u>

## 9. INTANGIBLE ASSETS

### Goodwill

#### Cost

At 1 January	103,276	103,276	103,276
Additions	-	-	-
Disposals	-	-	-
At 31 December	<u>103,276</u>	<u>103,276</u>	<u>103,276</u>

#### Amortisation

At 1 January	80,689	62,362	44,177
Amortisation	22,587	18,327	18,185
Disposals	-	-	-
At 31 December	<u>103,276</u>	<u>80,689</u>	<u>62,362</u>

#### Net Book Value

At 31 December	<u>-</u>	<u>22,587</u>	<u>40,914</u>
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Goodwill amortised in the three years consists of an annual charge of SAR 10.3 million. Additional charges of SAR 12.3 million, SAR 8.0 million and SAR 7.9 million in 2004, 2003 and 2002 respectively reflect a permanent diminution in the value of Goodwill as determined on review.

## 10. FIXED ASSETS

	<b>Land &amp; Buildings</b>	<b>Plant, Machinery &amp; Equipment</b>	<b>Motor Vehicles</b>	<b>Dairy Herd</b>	<b>Young Stock</b>	<b>Capital Work-in- Progress</b>	<b>Total</b>
	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000	SAR '000
<b>Cost</b>							
At 1 January 2002	496,567	765,635	203,157	168,503	62,545	176,252	1,872,659
Additions during 2002	-	25,646	23,999	-	-	203,767	253,412
Livestock Appreciation	-	-	-	-	70,160	-	70,160
Transfers during 2002	117,724	73,890	-	57,645	(57,645)	(191,614)	-
Disposals during 2002	(9,298)	(11,523)	(20,024)	(52,641)	(10,340)	-	(103,826)
<b>At 31 December 2002</b>	<b>604,993</b>	<b>853,648</b>	<b>207,132</b>	<b>173,507</b>	<b>64,720</b>	<b>188,405</b>	<b>2,092,405</b>
Additions during 2003	-	22,085	63,304	-	17,549	364,799	467,737
Livestock Appreciation	-	-	-	-	77,827	-	77,827
Transfers during 2003	69,114	131,375	-	75,488	(75,488)	(200,489)	-
Disposals during 2003	(51)	(11,422)	(33,319)	(51,237)	(11,261)	-	(107,290)
<b>At 31 December 2003</b>	<b>674,056</b>	<b>995,686</b>	<b>237,117</b>	<b>197,758</b>	<b>73,347</b>	<b>352,715</b>	<b>2,530,679</b>
Additions during 2004	-	8,235	47,927	2,283	2,754	432,406	493,605
Livestock Appreciation	-	-	-	-	84,865	-	84,865
Transfers during 2004	77,178	159,221	-	70,014	(70,014)	(236,399)	-
Disposals during 2004	(36)	(15,860)	(26,682)	(56,848)	(11,893)	-	(111,319)
<b>At 31 December 2004</b>	<b>751,198</b>	<b>1,147,282</b>	<b>258,362</b>	<b>213,207</b>	<b>79,059</b>	<b>548,722</b>	<b>2,997,830</b>
<b>Accumulated Depreciation</b>							
At 1 January 2002	142,956	439,759	117,129	50,198	-	-	750,042
Disposals during 2002	(8,982)	(10,729)	(19,767)	(18,395)	-	-	(57,873)
Charges for 2002	18,524	87,269	30,410	20,816	-	-	157,019
<b>At 31 December 2002</b>	<b>152,498</b>	<b>516,299</b>	<b>127,772</b>	<b>52,619</b>	<b>-</b>	<b>-</b>	<b>849,188</b>
Disposals during 2003	(51)	(11,022)	(32,355)	(18,372)	-	-	(61,800)
Charges for 2003	22,584	100,686	33,503	22,702	-	-	179,475
<b>At 31 December 2003</b>	<b>175,031</b>	<b>605,963</b>	<b>128,920</b>	<b>56,949</b>	<b>-</b>	<b>-</b>	<b>966,863</b>
Disposals during 2004	(13)	(13,791)	(26,097)	(20,400)	-	-	(60,301)
Charges for 2004	27,974	93,024	35,052	26,033	-	-	182,083
<b>At 31 December 2004</b>	<b>202,992</b>	<b>685,196</b>	<b>137,875</b>	<b>62,582</b>	<b>-</b>	<b>-</b>	<b>1,088,645</b>
<b>Net Book Value</b>							
<b>At 31 December 2004</b>	<b>548,206</b>	<b>462,086</b>	<b>120,487</b>	<b>150,625</b>	<b>79,059</b>	<b>548,722</b>	<b>1,909,185</b>
<b>At 31 December 2003</b>	<b>499,025</b>	<b>389,723</b>	<b>108,197</b>	<b>140,809</b>	<b>73,347</b>	<b>352,715</b>	<b>1,563,816</b>
<b>At 31 December 2002</b>	<b>452,495</b>	<b>337,349</b>	<b>79,360</b>	<b>120,888</b>	<b>64,720</b>	<b>188,405</b>	<b>1,243,217</b>
<b>At 1 January 2002</b>	<b>353,611</b>	<b>325,876</b>	<b>86,028</b>	<b>118,305</b>	<b>62,545</b>	<b>176,252</b>	<b>1,122,617</b>

<u>2004</u>	<u>2003</u>	<u>2002</u>
SAR '000	SAR '000	SAR '000

## 11. SHARE CAPITAL

The Company's share capital of SAR 750.0 million at 31 December 2004 consists of 75 million fully paid and issued shares of SAR 10 each. The Company's share capital of SAR 500 million at 31 December 2003 and SAR 200 million at 31 December 2002 consist 500,000 and 200,000 fully paid and issued shares respectively of SAR 1,000 each.

H. H. Prince Sultan Bin Mohammed Bin Saud Al Kabeer	398,625	270,750	108,302
The Savola Group	302,475	201,650	80,660
Abdulaziz Ibrahim Al Muhanna	28,650	19,100	7,642
Abdulahman Abdulaziz Al Muhanna	12,750	8,500	3,396
Princess Joharra Bint Saad Bin Abdulaziz	7,500	-	-
Total	<u>750,000</u>	<u>500,000</u>	<u>200,000</u>

During 2003, the Board of Directors of the Company approved an increase in Share Capital of SAR 300 million which was funded from Retained Earnings. All appropriate legal procedures have been completed.

During 2004, the following events occurred:

- A resolution was passed by the Shareholders, allowing a fifth partner to own shares in Almarai Company Limited. An amendment to the Articles of Association was made to reflect this resolution. His Highness Prince Sultan Bin Mohammed Bin Saud Al Kabeer subsequently transferred 5,000 shares from his holding to Her Royal Highness Princess Joharra Bint Saad Bin Abdulaziz.
- The Shareholders of the Company subsequently approved an increase in share capital of SAR 250 million which was funded from Retained Earnings. All appropriate legal procedures have been completed.
- The Company subsequently carried out a 1 for 100 share split such that the Company's share capital of SAR 750 million now consists of 75 million fully paid and issued shares of SAR 10 each. All appropriate legal procedures have been completed.

## 12. STATUTORY RESERVE

In accordance with its Articles of Association and the regulations for Companies in the Kingdom of Saudi Arabia, the Company is required each year to transfer 10% of its net income to a statutory reserve until such reserve equals 50% of its share capital. This statutory reserve is not currently available for distribution to the Shareholders.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	SAR '000	SAR '000	SAR '000
<b>13. SALES</b>			
By Product Group			
Fresh Dairy	1,190,897	1,131,302	1,059,779
Long Life Dairy	175,217	132,960	99,932
Fruit Juice	137,920	132,576	118,377
Cheese & Butter	369,559	350,416	312,199
Non-Dairy Foods	5,352	1,172	-
Other	6,167	5,513	10,473
	<u>1,885,112</u>	<u>1,753,939</u>	<u>1,600,760</u>
By Destination			
Saudi Arabia	1,285,883	1,217,433	1,105,410
Other Countries	599,229	536,506	495,350
	<u>1,885,112</u>	<u>1,753,939</u>	<u>1,600,760</u>

#### **14. SEGMENTAL REPORTING**

Analysis of Sales is given by Product Group as shown in Note 13. The disclosure of segmental information in respect of net income and net assets is not, in the opinion of the Board of Directors, required as the Company operates only in the consumer food business and as such, this information would not add value to the readers of these consolidated financial statements.

The disclosure of segmental information by geographical area, in respect of net income and net assets would, in the opinion of the Board of Directors, be prejudicial to the interest of the Company and accordingly are not disclosed.

#### **15. COST OF SALES**

Direct Material Costs	752,141	675,677	608,138
Employee Costs	137,916	117,020	105,203
Depreciation & Amortisation	171,325	164,917	147,770
Livestock Appreciation	(84,865)	(77,827)	(70,160)
Loss on Disposal of Livestock	17,475	20,957	18,358
Other Expenses	132,596	117,832	104,137
Total	<u>1,126,588</u>	<u>1,018,576</u>	<u>913,446</u>

#### **16. SELLING AND DISTRIBUTION EXPENSES**

Marketing Expenses	103,922	98,030	83,824
Employee Costs	113,142	103,617	93,329
Depreciation & Amortisation	25,072	25,050	22,288
Other Expenses	33,476	31,004	35,480
Total	<u>275,612</u>	<u>257,701</u>	<u>234,921</u>

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	SAR '000	SAR '000	SAR '000
<b>17. GENERAL AND ADMINISTRATION EXPENSES</b>			
Insurance	12,078	11,296	10,058
Employee Costs	59,559	55,658	61,262
Depreciation & Amortisation	8,273	7,835	5,146
Profit on Disposal of Other Fixed Assets	(10,357)	(9,831)	(9,992)
Other Expenses	16,741	15,802	15,061
Total	<u>86,294</u>	<u>80,760</u>	<u>81,535</u>

## 18. ZAKAT

- A. Zakat is charged at the higher of the net income or net working capital methods as required under Saudi Arabian Zakat Regulations. In all the years, the Zakat charge is based on the net income method calculated as follows:

Net Income before Zakat	379,746	378,093	361,742
Disallowed Expenses:			
Accrual for Employees' Termination Benefits	(1,015)	15,551	12,280
Other Provisions	8,514	788	6,914
Net Income for Zakat Purposes	<u>387,245</u>	<u>394,432</u>	<u>380,936</u>
Zakat Charge @ 2.5%	9,681	9,862	9,524
Adjustment in respect of prior year provision	(237)	(67)	136
Charged to Statement of Income	<u>9,444</u>	<u>9,795</u>	<u>9,660</u>

### B. Zakat Provisions

Balance at 1 January	9,862	9,524	8,276
Charged to Statement of Income	9,444	9,795	9,660
Payments	(9,625)	(9,457)	(8,412)
Balance at 31 December	<u>9,681</u>	<u>9,862</u>	<u>9,524</u>

- C. The Company paid its Zakat liabilities for all periods up to 31 December 2003 and has obtained a Zakat Certificate in respect of the years then ended. The final assessments for 2003 and 2002 are still under discussion.

## 19. DEPRECIATION AND AMORTISATION

Livestock			
Depreciation of Dairy Herd	26,033	22,702	20,816
Livestock Appreciation	(84,865)	(77,827)	(70,160)
Net Livestock Appreciation	<u>(58,832)</u>	<u>(55,125)</u>	<u>(49,344)</u>
Depreciation of Fixed Assets	156,050	156,773	136,203
Amortisation of Intangible Assets	22,587	18,327	18,185
Loss on the Disposal of Livestock	17,475	20,957	18,358
Profit on the Disposal of Fixed Assets	(10,357)	(9,831)	(9,992)
Total Depreciation and Amortisation	<u>126,923</u>	<u>131,101</u>	<u>113,410</u>

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	SAR '000	SAR '000	SAR '000
<u>(Profit)/Loss on the Disposal of Assets</u>			
Livestock			
Proceeds from Disposal of Livestock	(30,866)	(23,169)	(26,228)
NBV of Dairy Herd Cows Disposed	36,448	32,865	34,246
NBV of Youngstock Disposed	11,893	11,261	10,340
Loss on the Disposal of Livestock	<u>17,475</u>	<u>20,957</u>	<u>18,358</u>
Fixed Assets			
Proceeds from the Disposal of Assets	(13,034)	(11,195)	(11,359)
NBV of Assets Disposed	2,677	1,364	1,367
Profit on the Disposal of Fixed Assets	<u>(10,357)</u>	<u>(9,831)</u>	<u>(9,992)</u>

## **20. FINANCIAL INSTRUMENTS**

Financial instruments carried on the consolidated balance sheets include cash and bank balances, trade and other accounts receivable, short term bank borrowings, accounts payable, accrued expenses and other liabilities, and long term debt.

**Credit Risk** is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group has no significant concentration of credit risks. Cash and bank balances are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realisable values.

**Interest Rate Risk** is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company has no significant interest-bearing assets at 31 December 2004, 2003 and 2002. Interest-bearing liabilities at 31 December 2004, 2003 and 2002 amounted to SAR 535.0 million, SAR 415.0 million and SAR 150.5 million respectively.

**Liquidity Risk** is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value.

Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available to meet the Company's future commitments. Also see Note 8.

**Currency Risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transaction are principally in Saudi Riyals, United States Dollars, Sterling and Euro. Management believe that the currency risk for inventory and capital expenditure purchases is adequately managed, primarily through entering into foreign currency forward purchase agreements. Other transactions in foreign currencies are not material.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	SAR '000	SAR '000	SAR '000
The outstanding foreign currency forward purchase agreements were as follows:			
Euro	121,400	305,322	177,338
United States Dollar	94,055	188,846	188,879
Sterling	36,899	107,746	115,929
Danish Kroner	3,309	20,394	39,974
Other	1,637	6,050	-
	<u>257,300</u>	<u>628,358</u>	<u>522,120</u>

Foreign currency forward purchase agreements are secured by promissory notes given by the Company.

**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. As the Company's consolidated financial statements are prepared under the historical cost method, differences can arise between the book values and the fair value estimates. Management believe that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

## 21. COMMITMENTS AND CONTINGENCIES

- A. The contingent liabilities against letters of credit was SAR 85.7 million, SAR 125.9 million and SAR 25.3 million for 2004, 2003 and 2002 respectively.
- B. The contingent liabilities against letters of guarantee was SAR 36.4 million, SAR 21.8 million and SAR 26.7 million for 2004, 2003 and 2002 respectively.
- C. The Company had capital commitments amounting to SAR 292.2 million, SAR 351.5 million and SAR 225.7 million at 31 December 2004, 2003 and 2002 respectively. The majority of the capital commitments are for new production facilities, sales depot development, distribution fleet, fridges and information technology.
- D. Commitments under operating leases expire as follows:

Within one year	14,663	21,378	20,334
Two to five years	20,952	20,735	18,961
After five years	16,109	21,662	22,390
	<u>51,724</u>	<u>63,775</u>	<u>61,685</u>

## 22. DIRECTORS RENUMERATION

The remuneration due to the Board of Directors for the year ended 31 December 2004, 2003, and 2002 amounted to SAR 4.4 million, SAR 3.5 million, SAR 4.4 million respectively.



<u>2004</u>	<u>2003</u>	<u>2002</u>
SAR '000	SAR '000	SAR '000

### **23. RELATED PARTY TRANSACTIONS**

During the normal course of its operations, the Company had the following significant transactions with related parties during the years ended 31 December:

Sales	65,356	58,263	49,248
Purchases	91,481	91,077	85,789
Due from Related Parties - Net	2,361	13,741	13,311

Pricing and terms of payment for these transactions are approved by the Shareholders of the Company and the related parties.

### **24. SUBSEQUENT EVENTS**

In the opinion of the Management, there have been no significant subsequent events since the year end that would have a material impact on the financial position of the Company as reflected in these consolidated financial statements.