



ALMARAI COMPANY LIMITED  
A LIMITED LIABILITY COMPANY  
RIYADH - SAUDI ARABIA

THE INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS AND INDEPENDENT ACCOUNTANTS'  
REVIEW REPORT FOR THE SIX PERIODS  
ENDED 29 JUNE 2005

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

**INDEX**

|   | <b><u>PAGES</u></b> |
|---|---------------------|
| INDEPENDENT ACCOUNTANTS' REVIEW REPORT  | 1                   |
| INTERIM CONSOLIDATED BALANCE SHEET<br>AS AT 29 JUNE 2005 (UNAUDITED)  | 2                   |
| INTERIM CONSOLIDATED STATEMENT OF INCOME<br>FOR THE SIX PERIODS ENDED 29 JUNE 2005 (UNAUDITED)                          | 3                   |
| INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS<br>FOR THE SIX PERIODS ENDED 29 JUNE 2005 (UNAUDITED)                      | 4                   |
| INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY<br>FOR THE SIX PERIODS ENDED 29 JUNE 2005 (UNAUDITED) | 5                   |
| NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  | 6-9                 |

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying interim consolidated balance sheet of Almarai Company Limited (the "Company") as of 29 June 2005, the related interim consolidated statements of income, cash flows and changes in shareholders' equity for the six periods ended 29 June 2005, including the related notes. These interim consolidated financial statements are the responsibility of the company's management.

We conducted our review in accordance with the standards established by the Saudi Organization for Certified Public Accountants. A limited review of interim consolidated financial statements consists principally of applying analytical procedures to financial data and making inquiries of persons responsible in the Company for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the interim consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements for them to be in conformity with generally accepted accounting principles.

We have not reviewed the interim consolidated financial statements of the Company for the corresponding period in 2004 and for the period then ended. Accordingly, we were unable to identify any material modifications that should be made to those interim consolidated financial statements for them to be in conformity with generally accepted accounting principles.



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



Riyadh, 11<sup>th</sup> July 2005 A.H.  
Corresponding to 4<sup>th</sup> Jumad Thani 1426 A.D.

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

**INTERIM CONSOLIDATED BALANCE SHEET**  
**AS AT 29 JUNE 2005 (UNAUDITED)**

|                                       | <u>Notes</u> | <u>YTD June<br/>2005</u><br>SAR '000 | <u>YTD June<br/>2004</u><br>SAR '000 |
|---------------------------------------|--------------|--------------------------------------|--------------------------------------|
| <b><u>Current Assets</u></b>          |              |                                      |                                      |
| Cash and Bank Balances                |              | 78,394                               | 39,084                               |
| Receivables and Prepayments           |              | 213,187                              | 207,901                              |
| Inventories                           |              | 261,138                              | 183,056                              |
| <b>Total Current Assets</b>           |              | <b>552,719</b>                       | <b>430,041</b>                       |
| <b><u>Current Liabilities</u></b>     |              |                                      |                                      |
| Payables and Accruals                 |              | 327,905                              | 215,402                              |
| Short Term Loans                      | 4            | 19,017                               | 62,379                               |
| <b>Total Current Liabilities</b>      |              | <b>346,922</b>                       | <b>277,781</b>                       |
| <b>NET CURRENT ASSETS</b>             |              | <b>205,797</b>                       | <b>152,260</b>                       |
| <b><u>Non Current Assets</u></b>      |              |                                      |                                      |
| Intangible Assets - Goodwill          |              | 7,081                                | 17,423                               |
| Fixed Assets                          |              | 2,142,079                            | 1,735,153                            |
| <b>Total Non Current Assets</b>       |              | <b>2,149,160</b>                     | <b>1,752,576</b>                     |
| <b><u>Non Current Liabilities</u></b> |              |                                      |                                      |
| Long Term Loans                       | 4            | 1,077,300                            | 757,140                              |
| Employees' Termination Benefits       |              | 56,704                               | 50,405                               |
| <b>Total Non Current Liabilities</b>  |              | <b>1,134,004</b>                     | <b>807,545</b>                       |
| <b>NET ASSETS</b>                     |              | <b>1,220,953</b>                     | <b>1,097,291</b>                     |
| <b>SHAREHOLDER'S EQUITY</b>           |              |                                      |                                      |
| Share Capital                         |              | 750,000                              | 500,000                              |
| Statutory Reserve                     |              | 173,860                              | 136,830                              |
| Retained Earnings                     |              | 297,093                              | 460,461                              |
| <b>TOTAL SHAREHOLDER'S EQUITY</b>     |              | <b>1,220,953</b>                     | <b>1,097,291</b>                     |

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

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

**INTERIM CONSOLIDATED STATEMENT OF INCOME**  
**FOR THE SIX PERIODS ENDED 29 JUNE 2005 (UNAUDITED)**

|   | <u>Notes</u> | <u>April - June<br/>2005</u><br>SAR '000 | <u>April - June<br/>2004</u><br>SAR '000 | <u>YTD June<br/>2005</u><br>SAR '000 | <u>YTD June<br/>2004</u><br>SAR '000 |
|---|--------------|--|--|--------------------------------------|--------------------------------------|
| Sales   | 5            | 522,178                                  | 463,493                                  | 994,769                              | 907,025                              |
| Cost of Sales   |              | (310,787)                                | (273,279)                                | (599,761)                            | (543,814)                            |
| <b>Gross Profit</b>                                   |              | <b>211,391</b>                           | <b>190,214</b>                           | <b>395,008</b>                       | <b>363,211</b>                       |
| Selling & Distribution Expenses                       |              | (76,580)                                 | (67,606)                                 | (148,056)                            | (135,796)                            |
| General & Administration Expenses                     |              | (22,544)                                 | (17,999)                                 | (46,353)                             | (41,981)                             |
| <b>Net Income before Bank Charges<br/>&amp; Zakat</b> |              | <b>112,267</b>                           | <b>104,609</b>                           | <b>200,599</b>                       | <b>185,434</b>                       |
| Bank Charges  |              | (9,395)                                  | (2,336)                                  | (17,654)                             | (6,036)                              |
| <b>Net Income before Zakat</b>                        |              | <b>102,872</b>                           | <b>102,273</b>                           | <b>182,945</b>                       | <b>179,398</b>                       |
| Zakat   |              | (2,539)                                  | (2,421)                                  | (4,649)                              | (4,462)                              |
| <b>Net Income</b>                                     |              | <b>100,333</b>                           | <b>99,852</b>                            | <b>178,296</b>                       | <b>174,936</b>                       |
| <b>Earnings per Share (SAR)*</b>                      |              | <b>6.7</b>                               | <b>6.7</b>                               | <b>11.9</b>                          | <b>11.7</b>                          |

The operating results reported above in this interim consolidated statement of income present a true picture of the past performance of the Company, but are not necessarily indicative of future results.

\* Earnings per Share is calculated assuming the total number of issued shares is equal to the shares issued at 30 June 2005 (i.e. 15 million shares).

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

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

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX PERIODS ENDED 29 JUNE 2005 (UNAUDITED)**

|  | <u>YTD June<br/>2005</u><br>SAR '000 | <u>YTD June<br/>2004</u><br>SAR '000 |
|--|--------------------------------------|--------------------------------------|
| <b><u>Cash Flow from Operating Activities</u></b>            |                                      |                                      |
| <b>Net Income</b>  | <b>178,296</b>                       | <b>174,936</b>                       |
| Depreciation & Amortisation                                  | 56,997                               | 61,874                               |
| Bank Charges   | 17,654                               | 6,036                                |
| Change in Employees' Termination Benefits                    | 3,284                                | (4,030)                              |
| <b>Operating Cash Flow Before Changes in Working Capital</b> | <b>256,231</b>                       | <b>238,816</b>                       |
| Changes in:  |                                      |                                      |
| Receivables & Prepayments                                    | (26,593)                             | (28,953)                             |
| Inventories  | (17,899)                             | 10,081                               |
| Payables & Accruals  | 41,434                               | (8,698)                              |
| <b>Cash Flow used by Changes in Working Capital</b>          | <b>(3,058)</b>                       | <b>(27,570)</b>                      |
| <b>Cash Flow from Operating Activities</b>                   | <b>253,173</b>                       | <b>211,246</b>                       |
| <b><u>Cash Flow used in Investing Activities</u></b>         |                                      |                                      |
| Additions to Fixed Assets                                    | (316,792)                            | (249,691)                            |
| Proceeds from the Sale of Fixed Assets                       | 19,820                               | 21,644                               |
| <b>Cash Flow used in Investing Activities</b>                | <b>(296,972)</b>                     | <b>(228,047)</b>                     |
| <b><u>Cash Flow from Financing Activities</u></b>            |                                      |                                      |
| Increase in Loans  | 328,893                              | 313,159                              |
| Dividends Paid during the Period                             | (250,000)                            | (300,000)                            |
| Bank Charges   | (17,654)                             | (6,036)                              |
| <b>Cash Flow from Financing Activities</b>                   | <b>61,239</b>                        | <b>7,123</b>                         |
| <b>Increase/(Decrease) in Cash and Bank Balances</b>         | <b>17,440</b>                        | <b>(9,678)</b>                       |
| <b>Cash and Bank Balances at 1 January</b>                   | <b>60,954</b>                        | <b>48,762</b>                        |
| <b>Cash and Bank Balances at End of Period</b>               | <b>78,394</b>                        | <b>39,084</b>                        |

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

**ALMARAI COMPANY LIMITED**  
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**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE SIX PERIODS ENDED 29 JUNE 2005 (UNAUDITED)**

|                                 | <u>YTD June<br/>2005</u><br>SAR '000 | <u>YTD June<br/>2004</u><br>SAR '000 |
|---------------------------------|--------------------------------------|--------------------------------------|
| <b><u>Share Capital</u></b>     |                                      |                                      |
| Balance at 1 January            | 750,000                              | 500,000                              |
| <b>Balance at End of Period</b> | <b><u>750,000</u></b>                | <b><u>500,000</u></b>                |
| <b><u>Statutory Reserve</u></b> |                                      |                                      |
| Balance at 1 January            | 173,860                              | 136,830                              |
| <b>Balance at End of Period</b> | <b><u>173,860</u></b>                | <b><u>136,830</u></b>                |
| <b><u>Retained Earnings</u></b> |                                      |                                      |
| Balance at 1 January            | 368,797                              | 585,525                              |
| Net Income                      | 178,296                              | 174,936                              |
| Dividends Paid                  | (250,000)                            | (300,000)                            |
| <b>Balance at End of Period</b> | <b><u>297,093</u></b>                | <b><u>460,461</u></b>                |

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

**ALMARAI COMPANY LIMITED**  
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

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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' Hijjah 1411 A.H. (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 operates in Bahrain through a 100% owned subsidiary, Almarai Company Bahrain W.L.L.

During 2005, the Company commenced the process of establishing a subsidiary in Oman. This company, Arabian Planets for Trade and Marketing LLC was established on 16 May 2005 and started trading on 30 June 2005. This development will not impact our business in Oman.

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

On 14 Dhu al-Qa'dah 1425H (26 December 2004) the Shareholders of the Company resolved to convert the Company into a Joint Stock Company and this resolution was approved by the Ministry of Commerce and Industry and properly notarised on 28 Rabi'Il 1426H (8 June 2005). Pursuant to this resolution the par value of the Company's shares increased from SAR 10 to SAR 50, thus reducing the number of shares to 15 million.

On 6 Jumada'l 1426H (13 June 2005) the Minister of Commerce and Industry authorised the conversion of the Company from a limited liability company into a joint stock company and its floatation on the Saudi Arabian stock exchange. The subscription period for the Company's shares will be from 27 Jumada'l 1426H (4 July 2005) to 6 Jumada'l 1426H (13 July 2005), after which the Company will hold a Conversion General Assembly on 24 Jumada'l 1426H (30 July 2005). An application will then be submitted to the Minister of Commerce and Industry requesting him to announce the conversion of the Company. The Company will be considered duly converted into a joint stock company from the date of the issuance of the Ministerial Resolution declaring its conversion and we expect the Company to start trading on the Saudi Arabian stock exchange in Rajab 1426H (August 2005).

In June 2005, the Company acquired the trade, assets and liabilities of Al Riyadh Dairy Company.



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

- (a) The interim 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 period comparatives have been regrouped on a basis consistent with current period classification.
- (d) The interim 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 interim consolidated financial statements are rounded to the nearest thousand.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

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

The preparation of interim consolidated 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 period. 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 interim consolidated balance sheet and amortised to the interim 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 period 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 interim consolidated statement of income as appropriate. Gains and losses on derivative financial instruments used to hedge foreign currency exposures are recognised in the interim 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 interim 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 period in which such assessments are made.

**M. Operating Leases**

Rentals in respect of operating leases are charged to the interim consolidated statement of income over the terms of the leases.

#### 4. LOANS

|   | <u>YTD June<br/>2005</u><br>SAR '000 | <u>YTD June<br/>2004</u><br>SAR '000 |
|---|--------------------------------------|--------------------------------------|
| (i) Saudi Industrial Development Fund       | 254,960                              | 127,140                              |
| (ii) Saudi Arabian Agricultural Bank        | 20,308                               | 12,074                               |
| (iii) Islamic Banking Facilities (Murabaha) | 400,000                              | -                                    |
| (iv) Commercial Banks                       | 421,049                              | 680,305                              |
| Total                                       | <u>1,096,317</u>                     | <u>819,519</u>                       |

#### 5. SEGMENTAL REPORTING

Analysis of Sales is given by Product Group as shown below. 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 any value to readers of these interim 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 is not disclosed.

|                     | <u>April - June<br/>2005</u><br>SAR '000 | <u>April - June<br/>2004</u><br>SAR '000 | <u>YTD June<br/>2005</u><br>SAR '000 | <u>YTD June<br/>2004</u><br>SAR '000 |
|---------------------|--|--|--------------------------------------|--------------------------------------|
| <b><u>Sales</u></b> |  |  |                                      |                                      |
| By Product Group    |  |  |                                      |                                      |
| Fresh Dairy         | 329,640                                  | 293,941                                  | 608,029                              | 548,356                              |
| Long Life Dairy     | 49,998                                   | 42,285                                   | 103,916                              | 91,111                               |
| Fruit Juice         | 37,941                                   | 35,616                                   | 65,013                               | 66,936                               |
| Cheese & Butter     | 100,094                                  | 89,213                                   | 209,032                              | 195,421                              |
| Non-Dairy Foods     | 2,728                                    | 865                                      | 5,184                                | 2,254                                |
| Other               | 1,777                                    | 1,573                                    | 3,595                                | 2,947                                |
|                     | <u>522,178</u>                           | <u>463,493</u>                           | <u>994,769</u>                       | <u>907,025</u>                       |
| By Destination      |  |  |                                      |                                      |
| Saudi Arabia        | 356,860                                  | 314,020                                  | 674,692                              | 620,336                              |
| Other Countries     | 165,318                                  | 149,473                                  | 320,077                              | 286,689                              |
|                     | <u>522,178</u>                           | <u>463,493</u>                           | <u>994,769</u>                       | <u>907,025</u>                       |