



Grant Thornton

**UNITED FOODS COMPANY (PSC)**  
DUBAI, UNITED ARAB EMIRATES

AUDITORS' REPORT AND FINANCIAL STATEMENTS  
31 DECEMBER 2008

**UNITED FOODS COMPANY (PSC)**  
**Dubai – United Arab Emirates**

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**For the year ended 31 December 2008**

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## DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED 31 DECEMBER 2008

The Directors are pleased to present their report together with audited financial statements of the Company for the year ended 31 December 2008.

The year 2008 was an unusual year. Global economic crisis and the resulting precipitous fall of commodity prices affected the business of the Company adversely.

As the Company had purchased oils at higher prices, it had to sell at lower market prices as market prices collapsed. At the end of the year the Board took the conservative decision to mark down the value of the oil stocks to net realizable value. The mark down of oil stocks by AED 52.3 million was the primary reason for the loss of AED 44.4 million for the year 2008.

In view of the losses the Board also changed the management of the Company by appointing the oldest director of the Company Mr Sajjad Ahmad as Managing Director at the beginning of November 2008.

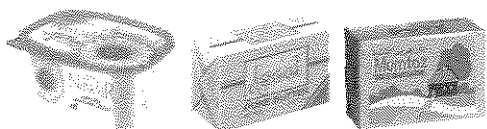
Steps taken since to restructure the Company and to cut costs have made the Company stronger for the future. The Company has established brands that have strong footings in the market. The size of working capital has also come down because of lower prices of raw materials. Thus, despite difficult market conditions and stiff competition, the Board is hopeful of a profitable close to the year 2009.

Following is the status of retained (deficit) / earnings:

|                                            | AED          |
|--------------------------------------------|--------------|
| Balance brought forward from the year 2007 | 3,724,898    |
| Dividend paid in 2008 for the year 2007    | (2,500,000)  |
| Loss for the year 2008                     | (44,409,918) |
| Retained deficit                           | (43,185,020) |
| Proposed transfer to General reserve       | 43,185,020   |
| Retained deficit after transfer            | -            |

### Directors

The list of Directors of the Company is as per page 3.



Auditors

Grant Thornton, the Auditors of the Company, being eligible, have offered themselves for reappointment.

On behalf of the Board,



ALI BIN HUMAID AL OWAIS  
CHAIRMAN

Dubai, United Arab Emirates

26 March 2009

### **Board of Directors**

- Mr. Ali Bin Humaid Al Owais - Chairman
- Mr. Abdulla Sultan Al Owais - Vice Chairman
- Mr. Sajjad Ahmad - Managing Director
- Mr. Salem Bin Mohammed Al Shamsi - Director
- Mr Yousif Mohamed Al Rasheed - Director

**Independent Auditors' Report  
To the Shareholders of  
United Foods Company (PSC)  
Dubai, United Arab Emirates**

Public Accountants  
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**Report on the Financial Statements**

We have audited the accompanying financial statements of United Foods Company (PSC) (the "Company") which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. 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 audit opinion.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as on 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

As required by the UAE Federal Law No 8 of 1984 (as amended), we also confirm that we have obtained all the information and explanations necessary for our audit, proper books of account have been kept by the Company and the contents of the Directors' report which relate to the financial statements are in agreement with the Company's books of account. To the best of our knowledge and belief, no violations of above mentioned Law or of the Articles of Association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.



**Grant Thornton**  
**Farouk Mohamed**  
(Registration no. 86)

Dubai, United Arab Emirates  
Date: 26 March 2009

**UNITED FOODS COMPANY (PSC)**

Dubai, United Arab Emirates

**BALANCE SHEET**

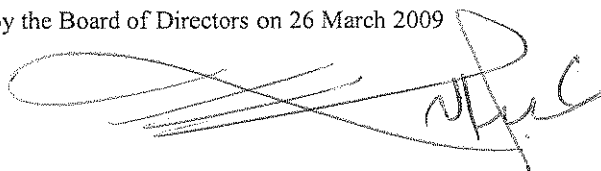
As at 31 December 2008

|                                                       | Notes | 2008<br>AED        | 2007<br>AED        |
|-------------------------------------------------------|-------|--------------------|--------------------|
| <b>Assets</b>                                         |       |                    |                    |
| <b>Non-current assets</b>                             |       |                    |                    |
| Property, plant and equipment                         | 3     | 63,247,639         | 67,585,356         |
| Available-for-sale investments                        | 4     | 318,209            | 1,567,714          |
| <b>Current assets</b>                                 |       | 63,565,848         | 69,153,070         |
| Inventories                                           | 5     | 81,461,077         | 85,606,167         |
| Accounts receivable and prepayments                   | 6     | 71,433,255         | 81,738,335         |
| Cash and bank                                         | 7     | 1,047,713          | 1,105,897          |
|                                                       |       | 153,942,045        | 168,450,399        |
| <b>Total assets</b>                                   |       | <u>217,507,893</u> | <u>237,603,469</u> |
| <b>Equity and liabilities</b>                         |       |                    |                    |
| <b>Equity</b>                                         |       |                    |                    |
| Share capital                                         | 8     | 25,000,000         | 25,000,000         |
| Statutory reserve                                     | 9     | 8,750,000          | 8,750,000          |
| General reserve                                       | 10    | 15,314,980         | 58,500,000         |
| Fair value reserve for available-for-sale investments |       | 41,517             | 1,291,028          |
| Retained earnings                                     |       | -                  | 3,724,898          |
| <b>Total equity</b>                                   |       | <u>49,106,497</u>  | <u>97,265,926</u>  |
| <b>Non-current liabilities</b>                        |       |                    |                    |
| Employees' end of service benefits                    | 12    | 2,940,052          | 2,685,991          |
| Borrowings                                            | 13    | 10,000,000         | 12,500,000         |
|                                                       |       | <u>12,940,052</u>  | <u>15,185,991</u>  |
| <b>Current liabilities</b>                            |       |                    |                    |
| Borrowings                                            | 13    | 88,121,202         | 35,698,440         |
| Bank overdrafts                                       | 14    | 40,163,268         | 34,282,432         |
| Accounts payable and accruals                         | 15    | 27,176,874         | 55,170,680         |
|                                                       |       | <u>155,461,344</u> | <u>125,151,552</u> |
| <b>Total liabilities</b>                              |       | <u>168,401,396</u> | <u>140,337,543</u> |
| <b>Total equity and liabilities</b>                   |       | <u>217,507,893</u> | <u>237,603,469</u> |

These financial statements were approved by the Board of Directors on 26 March 2009 and signed on their behalf by:



**Mr. Ali Bin Humaid Al Owais**



**Mr. Abdulla Sultan Al Owais**

The notes on pages 10 to 34 form an integral part of these financial statements.



**UNITED FOODS COMPANY (PSC)**  
**Dubai, United Arab Emirates**  
**INCOME STATEMENT**  
**For the year ended 31 December 2008**

|                                                        | Notes | 2008<br>AED                | 2007<br>AED              |
|--------------------------------------------------------|-------|----------------------------|--------------------------|
| Sales                                                  |       | 618,851,485                | 434,732,127              |
| Cost of sales                                          | 17    | (623,632,284)              | (388,121,160)            |
| <b>Gross (loss) / profit</b>                           |       | <u>(4,780,799)</u>         | <u>46,610,967</u>        |
| Selling and distribution expenses                      |       | (24,243,157)               | (21,331,885)             |
| Advertising expenses                                   |       | (4,200,712)                | (3,552,170)              |
| General and administration expenses                    |       | (9,025,222)                | (7,929,544)              |
| <b>(Loss) / profit from operations</b>                 |       | <u>(42,249,890)</u>        | <u>13,797,368</u>        |
| Other income                                           | 18    | 5,785,511                  | 3,476,566                |
| Finance charges                                        | 19    | (7,945,539)                | (4,344,579)              |
| <b>Net (loss) / profit for the year</b>                |       | <u><u>(44,409,918)</u></u> | <u><u>12,929,355</u></u> |
| <b>(Loss) / earnings per share - basic and diluted</b> | 20    | <u><u>(1.78)</u></u>       | <u><u>0.52</u></u>       |

The notes on pages 10 to 34 form an integral part of these financial statements.

**UNITED FOODS COMPANY (PSC)**  
Dubai, United Arab Emirates

**STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**  
for the year ended 31 December 2008

|                                                         | Share capital<br>AED | Statutory<br>reserve<br>AED | General<br>reserve<br>AED | Assets<br>replacement<br>reserve<br>AED | Fair value<br>adjustment for<br>available-for-sale<br>investments<br>AED | Retained<br>earnings<br>AED | Total<br>AED |
|---------------------------------------------------------|----------------------|-----------------------------|---------------------------|-----------------------------------------|--------------------------------------------------------------------------|-----------------------------|--------------|
| <b>Balance at 1 January 2007</b>                        | 25,000,000           | 7,450,000                   | 25,500,000                | 25,000,000                              | -                                                                        | 2,845,543                   | 85,795,543   |
| Available-for-sale investments                          | -                    | -                           | -                         | -                                       | -                                                                        | -                           | -            |
| - Gains recognised in equity                            | -                    | -                           | -                         | -                                       | 1,291,028                                                                | -                           | 1,291,028    |
| <b>Net income recognised directly in equity</b>         | -                    | -                           | -                         | -                                       | 1,291,028                                                                | -                           | 1,291,028    |
| Net profit for the year                                 | -                    | -                           | -                         | -                                       | -                                                                        | 12,929,355                  | 12,929,355   |
| <b>Total recognised income and expense for the year</b> | -                    | -                           | -                         | -                                       | 1,291,028                                                                | 12,929,355                  | 14,220,383   |
| Dividend paid (note 21)                                 | -                    | -                           | -                         | -                                       | -                                                                        | (2,500,000)                 | (2,500,000)  |
| Distribution to directors                               | -                    | -                           | -                         | -                                       | -                                                                        | (250,000)                   | (250,000)    |
| Reserve transfers (note 11)                             | -                    | 1,300,000                   | 33,000,000                | (25,000,000)                            | -                                                                        | (9,300,000)                 | -            |
| <b>Balance at 31 December 2007</b>                      | 25,000,000           | 8,750,000                   | 58,500,000                | -                                       | 1,291,028                                                                | 3,724,898                   | 97,265,926   |
| Available-for-sale investments                          | -                    | -                           | -                         | -                                       | (1,249,511)                                                              | -                           | (1,249,511)  |
| - Losses recognised in equity                           | -                    | -                           | -                         | -                                       | (1,249,511)                                                              | -                           | (1,249,511)  |
| <b>Net losses recognised directly in equity</b>         | -                    | -                           | -                         | -                                       | (1,249,511)                                                              | (44,409,918)                | (44,409,918) |
| Net loss for the year                                   | -                    | -                           | -                         | -                                       | (1,249,511)                                                              | (44,409,918)                | (45,659,429) |
| <b>Total recognised income and expense for the year</b> | -                    | -                           | -                         | -                                       | -                                                                        | (2,500,000)                 | (2,500,000)  |
| Dividend paid (note 21)                                 | -                    | -                           | -                         | -                                       | -                                                                        | 43,185,020                  | -            |
| Reserve transfers (note 10)                             | -                    | -                           | (43,185,020)              | -                                       | -                                                                        | -                           | -            |
| <b>Balance at 31 December 2008</b>                      | 25,000,000           | 8,750,000                   | 15,314,980                | -                                       | 41,517                                                                   | -                           | 49,106,497   |

The notes on pages 10 to 34 form an integral part of these financial statements.

**UNITED FOODS COMPANY (PSC)**

Dubai, United Arab Emirates

**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2008**

|                                                               | Notes | 2008<br>AED  | 2007<br>AED  |
|---------------------------------------------------------------|-------|--------------|--------------|
| <b>Operating activities</b>                                   |       |              |              |
| Net (loss) / profit for the year                              |       | (44,409,918) | 12,929,355   |
| Adjustments for:                                              |       |              |              |
| Depreciation                                                  | 3     | 8,487,511    | 9,796,889    |
| Provision for employees' end of service benefits              | 12    | 1,710,612    | 629,768      |
| Profit on sale of property, plant and equipment               | 18    | (107,818)    | (80,866)     |
| Interest expense                                              | 19    | 7,205,880    | 3,915,184    |
| Operating profit before working capital changes:              |       | (27,113,733) | 27,190,330   |
| Increase / (decrease) in inventories                          |       | 4,145,090    | (31,879,605) |
| Increase / (decrease) in accounts receivables and prepayments |       | 10,305,080   | (26,397,731) |
| (Decrease) / increase in accounts payable and accruals        |       | (27,852,145) | 14,134,431   |
| Cash used in operations                                       |       | (40,515,708) | (16,952,575) |
| Employees' end of service benefits paid                       | 12    | (1,456,551)  | (215,820)    |
| <b>Net cash used in operating activities</b>                  |       | (41,972,259) | (17,168,395) |
| <b>Investing activities</b>                                   |       |              |              |
| Purchase of property, plant and equipment                     | 3     | (4,208,945)  | (5,689,210)  |
| Proceeds from sale of property, plant and equipment           |       | 166,963      | 82,150       |
| Purchase of available-for-sale investments                    | 4     | -            | (19,136)     |
| <b>Net cash used in investing activities</b>                  |       | (4,041,982)  | (5,626,196)  |
| <b>Financing activities</b>                                   |       |              |              |
| Repayment of term loan                                        |       | (2,500,000)  | (2,500,000)  |
| Net inflow on trust receipts                                  |       | 21,565,329   | 18,322,363   |
| Proceeds from time loan                                       |       | 30,857,433   | -            |
| Interest paid                                                 |       | (7,097,541)  | (3,747,083)  |
| Dividend paid                                                 |       | (2,500,000)  | (2,500,000)  |
| Directors' fees                                               |       | (250,000)    | (350,000)    |
| Cash provided by in financing activities                      |       | 40,075,221   | 9,225,280    |
| <b>Net decrease in cash and cash equivalents</b>              |       | (5,939,020)  | (13,569,311) |
| Cash and cash equivalents at 1 January                        |       | (33,176,535) | (19,607,224) |
| <b>Cash and cash equivalents at 31 December</b>               | 21    | (39,115,555) | (33,176,535) |

The notes on pages 10 to 34 form an integral part of these financial statements.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 2008**

**1. LEGAL STATUS AND ACTIVITIES**

United Foods Company (PSC) (the "Company") was incorporated in Dubai under a decree issued by His Highness the Ruler of Dubai. On 27 June 1994 the Company amended its status to comply with the provisions of the UAE Commercial Companies Law of 1984 (as amended) as a public shareholding company. The Company's registered office is in Al Quoz, Dubai and its address is PO Box 5836, Dubai, United Arab Emirates. The principal activities of the Company are the manufacture, processing and marketing of hydrogenated vegetable ghee, cooking oil, margarine and butter products.

The Company listed its shares on the Dubai Financial Market (DFM) in July 2006.

The Company had 422 employees as of 31 December 2008 (2007:422).

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The summary of significant accounting policies of the Company are as follows:

**(a) Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') promulgated by the International Accounting Standards Board ('IASB') and interpretations thereof issued by the International Financial Reporting Interpretation Committees

The financial statements are prepared under the historical cost convention except for financial instruments, which are stated at fair value. The significant accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

**(b) STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE COMPANY**

As at the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards had been published but not yet effective. The following standards, amendments and interpretations are mandatory for the respective year ends mentioned and have not been early adopted by the Company.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**(b) STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE COMPANY (CONTINUED)**

Information on new standards, amendments and interpretations which have been issued and expected to be relevant to the Company's financial statements:

|                       |                                                                                                                                                      |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| IAS 1 (Revised)       | Presentation of Financial Statements (effective for accounting periods on or after January 1, 2009).                                                 |
| IAS 20 (Amendment)    | Accounting for Government Grants and Disclosure of Government Assistance (effective for accounting periods on or after January 1, 2009).             |
| IAS 23 (Amendment)    | Borrowing Costs (effective for accounting periods beginning on or after January 1, 2009).                                                            |
| IAS 27 (Revised 2008) | Consolidated and Separate Financial Statements (effective for accounting periods on or after July 1, 2009).                                          |
| IAS 32 (Amendment)    | Financial instruments: Presentation (effective for accounting periods on or after January 1, 2009).                                                  |
| IAS 34 (Amendment)    | Interim Financial Reporting (effective for accounting periods on or after January 1, 2009).                                                          |
| IAS 32 (Amendment)    | Financial Instruments: Presentation- Puttable Financial Instruments and Obligations Arising on Liquidation Amendment (effective from 1 January 2009) |
| IFRS 1 (Amendment)    | First-time Adoption of International Financial Reporting Standards (effective for accounting periods on or after January 1, 2009).                   |
| IFRS 2 (Amendment)    | Share-based Payment (effective for accounting periods on or after January 1, 2009).                                                                  |
| IFRS 3 (Revised 2008) | Business Combinations (effective for accounting periods on or after July 1, 2009).                                                                   |
| IFRS 8                | Operating Segments (effective for accounting periods on or after January 1, 2009).                                                                   |
| IFRIC 13              | Customer Loyalty Programmes (effective for accounting periods on or after July 1, 2008).                                                             |
| IFRIC 15              | Agreements for construction of real estate (effective for accounting periods on or after January 1, 2009).                                           |
| IFRIC 16              | Hedges of a Net Investment in a Foreign Operation (effective for accounting periods on or after October 1, 2008).                                    |

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE COMPANY (CONTINUED)**

Based on the Company business model and accounting policies, management does not expect material impact on the financial statements when the interpretations become effective and management does not intend to apply any of these pronouncements early.

**c) Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any cost attributable to bringing the asset to its working condition for its intended use.

Advances paid towards acquisition of property, plant and equipment and the cost of assets acquired but not ready for use as at the balance sheet date are disclosed under capital work-in-progress. As the assets are subsequently put for use, the capital work in progress is transferred to the appropriate category of property, plant and equipment.

Depreciation is recognized on a straight-line basis over the estimated useful lives of the assets concerned. The annual rates used are:

|                        |            |
|------------------------|------------|
| Buildings              | 20 years   |
| Plant and equipment    | 4-10 years |
| Furniture and fittings | 4 years    |
| Motor vehicles         | 4 years    |

Capital work in progress is not depreciated as that relates to assets that are not ready for use at the balance sheet date.

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains and losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in the income statement.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d) Impairment of assets**

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the income statement. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciated historical cost.

**(e) Financial instruments**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs.

Subsequent measurement criteria of financial assets and financial liabilities are described below.

**Financial assets**

For the purpose of subsequent measurement, the Company's financial assets can be classified into the following categories upon initial recognition:

- Loans and receivables; and
- Available for sale investments

The category determines subsequent measurement and whether any resulting income and expense is recognised in income statement or in statement of shareholders' equity.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(e) Financial instruments (continued)**

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, accounts receivables and other receivables fall into this category of financial instruments.

Individually significant loans and receivables are considered for impairment when they are past due or when there is other objective evidence that a specific counterparty will default. Impairment of loans and receivables are presented within 'administrative expenses'.

*Available for sale investments*

Available-for-sale investments are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. The Company's available-for-sale financial assets include quoted securities.

Available-for-sale investments are subsequently measured at fair value. Gains and losses are recognised in shareholders' equity and reported within the fair value reserve for available-for-sale investments, except for impairment losses which are recognised in the income statement. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in equity is reclassified from the available-for-sale reserve to income statement. Reversals of impairment losses are recognised in shareholders' equity.

**Financial liabilities**

The Company's financial liabilities include trade and other payables, bank overdrafts, short and long term borrowings. Financial liabilities are measured subsequently at amortised cost using the effective interest method.

**(f) Cash and cash equivalents**

Cash and cash equivalents comprise of cash on hand, current account deposits and bank overdrafts with maturities of less than three months and are subject to insignificant risks of change in value.



**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Provisions, contingent liabilities and contingent assets**

Provisions are recognised when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a present obligation that may, but probably will not, require an outflow of resources. Disclosure is also made in respect of a present obligation as a result of past event that probably requires an outflow of resource, where it is not possible to make a reliable estimate of the outflow. Where there is a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**(h) Borrowing costs**

Borrowing costs primarily comprise interest on the Company's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, are capitalized as part of the related property, plant and equipment.

**(i) Foreign currencies**

Financial statements are presented in Arab Emirates Dirhams ('AED'), which is also the functional currency of the Company.

Foreign currency transactions are translated into AED at rates ruling at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the rate of exchange ruling at the balance sheet date. Differences on settlement of foreign exchange transactions and re-measurement of monetary items are recognised in the income statement. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction.

**(j) Equity and retained (deficit) / earnings**

Share capital represents the nominal value of shares that have been issued. All shares are equally eligible to receive dividends and the repayment of capital, and represent one vote each at the shareholders' meeting of the Company.

Retained (deficit) / earnings include all current year losses and prior period retained earnings.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Earnings per share**

Basic and diluted earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

**(l) Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs include all expenses incurred in bringing each product to its present location and condition. Cost is determined on the following basis

|                                           |   |                                                                                                     |
|-------------------------------------------|---|-----------------------------------------------------------------------------------------------------|
| Raw material and trading goods for resale | - | Purchase cost on a weighted average basis.                                                          |
| Work-in-progress and finished goods       | - | Cost of direct material and labour plus attributable overheads based on a normal level of activity. |

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

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

The Company provides end of service benefits to its employees in accordance with the UAE Labour Law. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

**(n) UAE Nationals – Pension and social security**

The UAE Government has introduced Federal Labour Law no. 7 of 1999 for pension and social security. Under this law employers are required to contribute 12.5% of the 'contribution calculation salary' of those employees who are UAE nationals. These employees are also required to contribute 5% of the 'contribution calculation salary' to the scheme. The Company's contribution is recognised as an expense in the income statement on an accrual basis. The employees' and employers' contribution to the extent it remains unpaid at the balance sheet date is shown under provisions.

UNITED FOODS COMPANY (PSC)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 31 December 2008

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(o) Revenue recognition**

Revenue is recognized to the extent it is probable that economic benefits will flow to the Company and the amount of revenue can be measured reliably.

*Sale of goods*

Revenue from sale of goods is recognised when significant risks and rewards of ownership of the goods supplied are transferred to the buyer and is stated net of trade discounts and sales returns.

*Interest income*

Interest income is recognised on an accrual basis using the effective interest method.

**(p) Finance charges**

Finance charges are recognised on an accrual basis using effective interest rate method.

**(q) Leases**

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

**(r) Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, which are described in the above notes, management is required to make judgments, estimates and assumption about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

UNITED FOODS COMPANY (PSC)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 31 December 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Critical accounting judgements and key sources of estimation uncertainty  
(continued)

Estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year are addressed below:

*Impairment*

An impairment loss is recognised for the amount by which an asset's or cash generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future gross profits. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within next financial year. In most cases, determining the appropriate discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

*Inventories*

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the times the estimates are made. The Company's core business is subject to fluctuations in commodity prices which may cause selling prices and the future realisation of the carrying amounts of inventory to change rapidly.

*Useful life of assets*

Management reviews the useful lives of depreciation assets at each reporting date. Management assesses at each reporting date, that the useful lives represent the expected utility of the assets to the Company.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**3 PROPERTY, PLANT AND EQUIPMENT**

|                       | Land and<br>buildings<br>AED | Plant and<br>equipment<br>AED | Furniture and<br>fittings<br>AED | Motor<br>vehicles<br>AED | Capital work-<br>in-progress<br>AED | Total<br>AED      |
|-----------------------|------------------------------|-------------------------------|----------------------------------|--------------------------|-------------------------------------|-------------------|
| <b>Cost:</b>          |                              |                               |                                  |                          |                                     |                   |
| At 1 January 2007     | 45,032,382                   | 92,281,087                    | 2,502,434                        | 8,545,207                | 20,500                              | 148,381,610       |
| Additions             | 362,500                      | 1,749,920                     | 395,413                          | 952,050                  | 2,229,327                           | 5,689,210         |
| Allocation            | -                            | 1,600,275                     | -                                | -                        | (1,600,275)                         | -                 |
| Disposals             | -                            | -                             | (960)                            | (272,500)                | -                                   | (273,460)         |
| At 1 January 2008     | 45,394,882                   | 95,631,282                    | 2,896,887                        | 9,224,757                | 649,552                             | 153,797,360       |
| Additions             | -                            | 1,865,626                     | 101,657                          | 803,150                  | 1,438,512                           | 4,208,945         |
| Allocation            | 483,742                      | -                             | -                                | -                        | (483,742)                           | -                 |
| Disposals             | -                            | -                             | (11,254)                         | (426,585)                | -                                   | (437,839)         |
| At 31 December 2008   | 45,878,624                   | 97,496,908                    | 2,987,290                        | 9,601,322                | 1,604,322                           | 157,568,466       |
| <b>Depreciation:</b>  |                              |                               |                                  |                          |                                     |                   |
| At 1 January 2007     | 13,690,167                   | 55,172,401                    | 1,957,782                        | 5,866,942                | -                                   | 76,687,292        |
| Charge for the year   | 1,959,780                    | 6,420,919                     | 251,470                          | 1,164,720                | -                                   | 9,796,889         |
| Disposals             | -                            | -                             | (960)                            | (271,217)                | -                                   | (272,177)         |
| At 1 January 2008     | 15,649,947                   | 61,593,320                    | 2,208,292                        | 6,760,445                | -                                   | 86,212,004        |
| Charge for the year   | 1,972,457                    | 5,072,562                     | 271,069                          | 1,171,423                | -                                   | 8,487,511         |
| Disposals             | -                            | -                             | (7,755)                          | (370,933)                | -                                   | (378,688)         |
| At 31 December 2008   | 17,622,404                   | 66,665,882                    | 2,471,606                        | 7,560,935                | -                                   | 94,320,827        |
| <b>Net book value</b> |                              |                               |                                  |                          |                                     |                   |
| At 31 December 2008   | <u>28,256,220</u>            | <u>30,831,026</u>             | <u>515,684</u>                   | <u>2,040,387</u>         | <u>1,604,322</u>                    | <u>63,247,639</u> |
| <b>Net book value</b> |                              |                               |                                  |                          |                                     |                   |
| At 31 December 2007   | <u>29,744,935</u>            | <u>34,037,962</u>             | <u>688,595</u>                   | <u>2,464,312</u>         | <u>649,552</u>                      | <u>67,585,356</u> |

- i) a) The Company's buildings on Sheikh Zayed Road are constructed on land granted to the Company by His Highness The Ruler of Dubai. The land is registered in the name of the Company.
- b) The Company's buildings in Jebel Ali Industrial Area are constructed on land taken on lease from the Government of Dubai (note 28).
- ii) Capital work-in-progress relates to construction of a boiler house. As the assets were brought to use in the current year, the capital work in progress was allocated to plant and equipment.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**3 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

iii) Plant and equipment are under finance from a lending institution and are hypothecated in favour of the institution up to an amount of AED 22,391,477 (2007: 19,776,828) (note 13).

iv) The depreciation charge for the year has been dealt with in the income statement as follows:

|                                     | <b>2008</b>      | <b>2007</b>      |
|-------------------------------------|------------------|------------------|
|                                     | <b>AED</b>       | <b>AED</b>       |
| Cost of sales (note 17)             | 7,404,797        | 8,731,573        |
| General and administration expenses | 1,082,714        | 1,065,316        |
|                                     | <u>8,487,511</u> | <u>9,796,889</u> |

In the opinion of the management, there has been no impairment to the net book value of the Company's property, plant and equipment at 31 December 2008 (2007: Nil).

At the year end, cost of fully depreciated assets still in use was AED 60.1 million (2007: AED 60.1 million).

**4 AVAILABLE-FOR-SALE INVESTMENTS**

|                                      |                |                  |
|--------------------------------------|----------------|------------------|
| Balance as at January 1              | 1,567,714      | 257,550          |
| Securities purchased during the year | -              | 19,136           |
| Fair value adjustment                | (1,249,505)    | 1,291,028        |
| Balance as at December 31            | <u>318,209</u> | <u>1,567,714</u> |

The investments are quoted on Dubai Financial Market and are valued at closing market prices at the balance sheet date. In the opinion of the management, there has been no impairment to the net book value of the Company's investment at 31 December 2008.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**5 INVENTORIES**

|                                      | <b>2008</b>              | <b>2007</b>              |
|--------------------------------------|--------------------------|--------------------------|
|                                      | <b>AED</b>               | <b>AED</b>               |
| Raw materials*                       | 62,572,996               | 38,685,725               |
| Less: Provision for obsolescence     | (2,888,073)              | (915,092)                |
|                                      | <u>59,684,923</u>        | <u>37,770,633</u>        |
| Work-in-progress (note 17)           | 2,107,995                | 3,195,321                |
| Finished goods and goods for resale: |                          |                          |
| Own manufactured goods (note 17)     | 19,290,391               | 21,067,569               |
| Trading goods (Mini Mart)            | -                        | 156,250                  |
| Others                               | 377,768                  | 702,463                  |
|                                      | <u>81,461,077</u>        | <u>62,892,236</u>        |
| Goods-in-transit                     | -                        | 22,713,931               |
|                                      | <u><u>81,461,077</u></u> | <u><u>85,606,167</u></u> |

\* This includes raw-material stock with third party of AED 4,249,572 (2007: 1,352 665).

**6 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

|                                            |                          |                          |
|--------------------------------------------|--------------------------|--------------------------|
| Trade receivables                          | 72,540,288               | 80,162,135               |
| Less : provision for doubtful debts        | (3,037,893)              | (2,655,264)              |
|                                            | <u>69,502,395</u>        | <u>77,506,871</u>        |
| Trade receivables – net of provision       |                          |                          |
| Amounts due from related parties (note 25) | 614,965                  | 1,370,727                |
| Other receivables                          | 326,467                  | 1,426,550                |
| Prepaid expenses                           | 708,357                  | 760,696                  |
| Advance to suppliers                       | 281,071                  | 673,491                  |
|                                            | <u><u>71,433,255</u></u> | <u><u>81,738,335</u></u> |

As accounts receivable are stated net of any required provision and are short term in nature, fair value approximates carrying values. The Company's terms of sale require the amounts to be paid within 30 to 90 days from the date of sale.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**7 CASH AND BANK**

|              | <b>2008</b>      | <b>2007</b>      |
|--------------|------------------|------------------|
|              | <b>AED</b>       | <b>AED</b>       |
| Cash in hand | 63,800           | 89,627           |
| Cash at bank | 983,913          | 1,016,270        |
|              | <u>1,047,713</u> | <u>1,105,897</u> |

All bank accounts are maintained with banks operating in United Arab Emirates

**8 SHARE CAPITAL**

|                         | <b>Authorised</b> |             | <b>Issued and fully paid</b> |             |
|-------------------------|-------------------|-------------|------------------------------|-------------|
|                         | <b>2008</b>       | <b>2007</b> | <b>2008</b>                  | <b>2007</b> |
|                         | <b>AED</b>        | <b>AED</b>  | <b>AED</b>                   | <b>AED</b>  |
| Shares of AED 1.00 each | 25,000,000        | 25,000,000  | 25,000,000                   | 25,000,000  |

**9 STATUTORY RESERVE**

As required by Article 192 of the UAE Commercial Companies Law of 1984 (as amended) and the Company's Articles of Association, at least 10% of the net profit for each year is required to be transferred to statutory reserve. The reserve is not available for distribution except in the circumstances stipulated by law.

|                         |                  |                  |
|-------------------------|------------------|------------------|
| Balance at 1 January    | 8,750,000        | 7,450,000        |
| Transferred from profit | -                | 1,300,000        |
|                         | <u>8,750,000</u> | <u>8,750,000</u> |

**10 GENERAL RESERVE**

In accordance with Clause (58) of the Company's Articles of Association, 10% of the net profit for each year should be transferred to the general reserve and such transfers may cease when the reserve equals to 50% of the paid up share capital of the Company.



**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**10 GENERAL RESERVE (CONTINUED)**

The reserve is to be used for purpose as recommended by the Board of Directors and approved by the Annual General Meeting.

The movement of the account is as follows:

|                                         | <b>2008</b>       | <b>2007</b>       |
|-----------------------------------------|-------------------|-------------------|
|                                         | <b>AED</b>        | <b>AED</b>        |
| Balance at 1 January                    | 58,500,000        | 25,500,000        |
| Transfer from Asset replacement reserve | -                 | 25,000,000        |
| Transferred from profit                 | -                 | 8,000,000         |
| Transferred from retained earnings      | (43,185,020)      | -                 |
|                                         | <u>15,314,980</u> | <u>58,500,000</u> |

**11 ASSETS REPLACEMENT RESERVE**

In the prior year 2007, the Board of Directors proposed a transfer of balance in the Assets replacement reserve to General reserve as on the balance sheet (note 10).

**12 EMPLOYEES' END OF SERVICE BENEFITS**

In accordance with UAE Labour Law the Company provides for an end of service benefit for its employees. The amounts recognised in the balance sheet in respect of end of service benefits are as follows:

|                                           |                  |                  |
|-------------------------------------------|------------------|------------------|
| Present value of end of service liability | <u>2,940,052</u> | <u>2,685,991</u> |
|-------------------------------------------|------------------|------------------|

Movements in the liability recognised in the balance sheet are as follows:

|                                            |                  |                  |
|--------------------------------------------|------------------|------------------|
| Liability as at 1 January                  | 2,685,991        | 2,272,043        |
| Expense recognised in the income statement | 1,710,612        | 629,768          |
| Paid during the year                       | (1,456,551)      | (215,820)        |
| Liability as at 31 December                | <u>2,940,052</u> | <u>2,685,991</u> |

An actuarial valuation has not been performed as in the opinion of the management the net impact of discount rate and future increase in staff salaries is not likely to be material.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**13 BORROWINGS**

**Long term borrowings**

|                           | <b>2008<br/>AED</b>      | <b>2007<br/>AED</b>      |
|---------------------------|--------------------------|--------------------------|
| Balance as at 1 January   | 17,500,000               | 20,000,000               |
| Repayment during the year | (2,500,000)              | (2,500,000)              |
|                           | <u>15,000,000</u>        | <u>17,500,000</u>        |
| Less Short term portion   | (5,000,000)              | (5,000,000)              |
| Balance as at 31 December | <u><u>10,000,000</u></u> | <u><u>12,500,000</u></u> |

The loan is taken from Emirates Industrial Bank and carried interest rate at 4.5% until 15 April 2008 and 3.5% thereafter, payable semi-annually. During the year the Company renegotiated the loan with bank and deferred the repayment schedule by 6 months. The change in terms does not result in substantial modification to the loan agreement. Carrying value of the loan is not materially different from its fair value.

The loan is secured by way of mortgage of the Company's plant and equipment. Subsequent to the deferral of the loan the amount mortgaged as collateral was increased to AED 22,391,477 (2007: 19,776,828) (note 3 iii).

**Short term borrowings**

|                                      |                          |                          |
|--------------------------------------|--------------------------|--------------------------|
| Trust receipts                       | 52,263,769               | 30,698,440               |
| Time loans                           | 30,857,433               | -                        |
| Short term portion of long term loan | 5,000,000                | 5,000,000                |
|                                      | <u><u>88,121,202</u></u> | <u><u>35,698,440</u></u> |

Trust receipts represents cash against documents availed by the Company for financing import purchases. Time loan represents facilities availed by the Company for financing purchases. The facilities carry interest at EIBOR plus bank margin and are repayable within 120-150 days.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**14 BANK OVERDRAFTS**

|                 | <b>2008</b>       | <b>2007</b>       |
|-----------------|-------------------|-------------------|
|                 | <b>AED</b>        | <b>AED</b>        |
| Bank overdrafts | 40,163,268        | 34,282,432        |
|                 | <u>40,163,268</u> | <u>34,282,432</u> |

Certain bank overdrafts are secured corporate guarantee of United Foods Company PSC and assignment of insurance on inventories of AED 25 million (2007: Nil).

The bank overdraft facilities carry interest at the normal commercial rate ranging from 3.85% to 7.50%.

**15 ACCOUNTS PAYABLE AND ACCRUALS**

|                                              |                   |                   |
|----------------------------------------------|-------------------|-------------------|
| Trade payables                               | 10,105,138        | 34,438,933        |
| Amounts due to related parties (note 25)     | 8,061,080         | 8,925,044         |
| Advances from customers                      | 3,427,330         | 5,066,633         |
| Accrued expenses                             | 1,466,202         | 4,960,841         |
| Other payables                               | 2,904,331         | 418,101           |
| Provision for leave salaries and air passage | 1,212,793         | 1,361,128         |
|                                              | <u>27,176,874</u> | <u>55,170,680</u> |

**16 SEGMENTAL INFORMATION**

The management has considered the provisions of IAS 14 in relation to segmental reporting and concluded that the Company's activities form a single segment under the standard. From a geographical perspective, the Company's substantial activities are focused in the Middle East region. Equally, in relation to business segmentation, the Company's products are predominantly focused in the manufacture and processing of butter and cooking oil and it is considered that, the risks and rewards from various products lines of the Company are not materially different.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**17 COST OF SALES**

|                                                | <b>2008</b>               | <b>2007</b>               |
|------------------------------------------------|---------------------------|---------------------------|
|                                                | <b>AED</b>                | <b>AED</b>                |
| Cost of sales of manufactured goods comprises: |                           |                           |
| Materials:                                     |                           |                           |
| Opening stock of raw materials                 | 37,770,633                | 31,173,282                |
| Purchases                                      | 543,736,231               | 366,139,024               |
| Closing stock of raw materials (note 5)        | (59,684,923)              | (37,770,633)              |
|                                                | <u>521,821,941</u>        | <u>359,541,673</u>        |
| Raw materials and packing materials consumed   | 521,821,941               | 359,541,673               |
| Net realisable value adjustment                | 52,298,820                | -                         |
| Manufactured overheads:                        |                           |                           |
| Salaries and wages benefits                    | 9,133,133                 | 9,356,527                 |
| Fuel and power                                 | 21,494,294                | 14,324,574                |
| Repairs and maintenance                        | 1,499,137                 | 1,594,550                 |
| Depreciation (note 3 iv)                       | 7,404,797                 | 8,731,573                 |
| Other                                          | 7,115,658                 | 4,526,842                 |
|                                                | <u>620,767,780</u>        | <u>398,075,739</u>        |
| Cost of goods manufactured                     | 620,767,780               | 398,075,739               |
| Opening stock of work in progress              | 3,195,321                 | 1,315,015                 |
| Opening stock of finished goods                | 21,067,569                | 12,993,296                |
| Closing stock of work in progress (note 5)     | (2,107,995)               | (3,195,321)               |
| Closing stock of finished goods (note 5)       | (19,290,391)              | (21,067,569)              |
|                                                | <u><u>623,632,284</u></u> | <u><u>388,121,160</u></u> |

During the year the net realisable value of the products sold by the Company declined significantly due the fall in global commodity prices. Accordingly the Company has written down the inventory to lower of cost and net realisable value in accordance with IAS 2 Inventories.

**18 OTHER INCOME**

|                                                 |                         |                         |
|-------------------------------------------------|-------------------------|-------------------------|
| Profit on sale of property, plant and equipment | 107,818                 | 80,866                  |
| Miscellaneous income                            | 5,677,693               | 3,395,700               |
|                                                 | <u><u>5,785,511</u></u> | <u><u>3,476,566</u></u> |

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**19 NET PROFIT FOR THE YEAR**

|                                                       | <b>2008</b>       | <b>2007</b>       |
|-------------------------------------------------------|-------------------|-------------------|
|                                                       | <b>AED</b>        | <b>AED</b>        |
| The net profit for the year is stated after charging: |                   |                   |
| Staff costs:                                          |                   |                   |
| Wages and salaries                                    | 11,953,816        | 10,928,896        |
| End of service benefits                               | 1,710,612         | 629,768           |
| Other benefits                                        | 3,385,989         | 3,486,378         |
|                                                       | <u>17,050,417</u> | <u>15,045,042</u> |
| Finance charges:                                      |                   |                   |
| Interest on long term loan                            | 611,284           | 898,438           |
| Bank interest                                         | 6,594,596         | 3,016,746         |
|                                                       | <u>7,205,880</u>  | <u>3,915,184</u>  |
| Interest expense                                      | 739,659           | 429,395           |
| Other bank charges                                    | <u>7,945,539</u>  | <u>4,344,579</u>  |

**20 EARNINGS PER SHARE**

Basic and diluted earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

|                                                               |                   |                   |
|---------------------------------------------------------------|-------------------|-------------------|
| (Loss) / profit for the year                                  | (44,409,918)      | 12,929,355        |
| Weighted average number of shares outstanding during the year | <u>25,000,000</u> | <u>25,000,000</u> |
| (Loss) / earnings per share – basic and diluted               | <u>(1.78)</u>     | <u>0.52</u>       |

**21 CASH AND CASH EQUIVALENTS**

|                          |                     |                     |
|--------------------------|---------------------|---------------------|
| Cash and bank (note 7)   | 1,047,713           | 1,105,897           |
| Bank overdraft (note 15) | (40,163,268)        | (34,282,432)        |
|                          | <u>(39,115,555)</u> | <u>(33,176,535)</u> |

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**22 PROPOSED DIVIDEND**

There were no dividends proposed for the year ended 31 December 2008. The proposed dividend for the year ended 31 December 2007 was paid during the year.

**23 CAPITAL MANAGEMENT**

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern in order to provide an adequate return to shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company prices its products to commensurate with the level of risk. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. Following is the capital management structure:

|                           | <b>2008</b> | <b>2007</b> |
|---------------------------|-------------|-------------|
|                           | <b>AED</b>  | <b>AED</b>  |
| Cash and cash equivalents | 1,047,713   | 1,105,897   |
| Equity                    | 49,106,497  | 97,265,926  |
| Term loan                 | 15,000,000  | 17,500,000  |
| Trust receipts            | 83,121,202  | 30,698,440  |
| Time loans                | 30,857,433  | -           |
| Bank overdrafts           | 40,163,268  | 34,282,432  |

**24 FAIR VALUE OF FINANCIAL INSTRUMENTS**

Financial instruments consist of financial assets and financial liabilities. Company's significant accounting policies for assets and liabilities are set out in note 2. The risks associated with financial instruments and Company's approach to managing such risks is described below:

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**24 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**Currency risk (continued)**

The Company is exposed to foreign currency risk arising from various foreign currency exposures, primarily with respect to USD. The AED is effectively pegged to the USD, thus balances denominated in USD and other currencies pegged against USD are not considered to represent significant currency risks.

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest bearing financial liabilities comprises trust receipts and bank overdraft facility which mature in the short term, and long term loan from Emirates Industrial Bank. As a result the Company is subject to limited exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rates.

**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 Company's bank accounts are placed with high credit quality national and international banks. Credit risks on receivables are limited to customers, which are carried net of provisions for doubtful receivables. The Company manages credit risk with respect to receivables from customers by dealing with creditworthy parties and by regularly monitoring of payments from customers in accordance with the terms of respective contracts.

The Company's exposure to credit risk is limited to the carrying amounts of financial assets recognised at the balance sheet date, as summarized below:

|                                                                  | Note | 2008<br>AED       | 2007<br>AED       |
|------------------------------------------------------------------|------|-------------------|-------------------|
| Amounts due from related parties                                 | 25   | 614,965           | 1,370,727         |
| Accounts receivable, advances to suppliers and other receivables | 6    | 70,109,933        | 78,941,058        |
| Cash and cash equivalents                                        |      |                   |                   |
| - Cash and bank balances                                         | 7    | 1,047,713         | 1,105,897         |
|                                                                  |      | <u>71,772,611</u> | <u>81,417,682</u> |

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**24 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED.)**

**Credit risk (continued)**

Financial assets past due but not impaired can be shown as follows:

|                                              | <b>2008</b>       | <b>2007</b>       |
|----------------------------------------------|-------------------|-------------------|
|                                              | <b>AED</b>        | <b>AED</b>        |
| Not more than 90 days                        | 67,947,501        | 74,025,340        |
| More than 90 days but not more than 120 days | 1,554,894         | 1,280,433         |
| More than 120 days                           | -                 | 2,201,098         |
| <b>Total</b>                                 | <b>69,502,395</b> | <b>77,506,871</b> |

The Company's management considers that all the above financial assets that are not impaired at each of the reporting dates, are of good credit quality.

**Liquidity risk**

Liquidity risk also referred to as funding risk is the risk that enterprises will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and the management ensures that sufficient funds are available to meet any future commitments.

The table below summarises the maturity profile of the Company's liabilities. The maturities of liabilities have been determined on the basis of the remaining period from the balance sheet date to the contractual maturity date.

|                               | <b>Note</b> | <b>within 6<br/>months<br/>AED</b> | <b>6 to 12<br/>months<br/>AED</b> | <b>1 to 5<br/>years</b> | <b>Total<br/>AED</b> |
|-------------------------------|-------------|------------------------------------|-----------------------------------|-------------------------|----------------------|
| <b>31 December 2008</b>       |             |                                    |                                   |                         |                      |
| <b>Financial liabilities</b>  |             |                                    |                                   |                         |                      |
| Bank loan                     | <b>13</b>   | 2,500,000                          | 2,500,000                         | 10,000,000              | 15,000,000           |
| Trust receipts                | <b>13</b>   | 52,263,769                         | -                                 | -                       | 52,263,769           |
| Time Loans                    | <b>13</b>   | 30,857,433                         | -                                 | -                       | 30,857,433           |
| Bank overdraft                | <b>14</b>   | 40,163,268                         | -                                 | -                       | 40,163,268           |
| Accounts payable and accruals | <b>15</b>   | 27,176,874                         | -                                 | -                       | 27,176,874           |
|                               |             | <b>152,961,344</b>                 | <b>2,500,000</b>                  | <b>10,000,000</b>       | <b>165,461,344</b>   |



**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**24 FINANCIAL INSTRUMENTS (CONTINUED)**

**Liquidity risk (continued)**

|                               | Note | within 6<br>months<br>AED | 6 to 12<br>months<br>AED | 1 to 5<br>years | Total<br>AED |
|-------------------------------|------|---------------------------|--------------------------|-----------------|--------------|
| <b>31 December 2007</b>       |      |                           |                          |                 |              |
| <b>Financial liabilities</b>  |      |                           |                          |                 |              |
| Bank loan                     | 13   | 2,500,000                 | 2,500,000                | 12,500,000      | 17,500,000   |
| Trust receipts                | 13   | 30,698,440                | -                        | -               | 30,698,440   |
| Bank overdraft                | 14   | 34,282,432                | -                        | -               | 34,282,432   |
| Accounts payable and accruals | 15   | 55,170,680                | -                        | -               | 55,170,680   |
|                               |      | 122,651,552               | 2,500,000                | 12,500,000      | 137,651,552  |

All financial liabilities are interest bearing except accounts payable and accruals.

The management has initiated an action plan in November 2008 to restructure the Company, to rationalise costs, focusing on product lines with healthy margins and improving collections from receivables. The management plan has yielded positive results as the Company has been able to reduce its collection period, and repay short term loans on due dates. The management believes that the Company has established brands that have strong footing in the market which would generate adequate cash flows to enable the Company to meet its obligations when they fall due.

**Market Risk**

Market risk is the risk that the value of the financial instruments will fluctuate as a result of the change in market prices, whether those changes are caused by factor specific to the individual security or its issuer, or factors affecting all securities, traded in the market. The Company is exposed to market risks by continuous monitoring of development in stock markets. In addition, the Company actively monitors the key factors that affect stock movements including analysis of operational and financial performance of investee.

All Company's investments are within the United Arab Emirates.

**Fair value 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. Differences can therefore arise between the book values under the historical cost method and fair value estimates. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**24 FINANCIAL INSTRUMENTS (CONTINUED)**

**Fair value of financial instruments (continued)**

The fair values of all classes of the Company's financial assets and financial liabilities are not materially different from their carrying values in the balance sheet.

**25 RELATED PARTY TRANSACTIONS**

The Company in the normal course of business carried on business with other enterprises that fall within the definition of related party. Details of related party transactions entered into during the year are set out below. The management of the Company believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

Key management personnel (KMP) of the company include:

- Mr. Ali Bin Humaid Al Owais - Chairman
- Mr. Abdulla Sultan Al Owais - Vice Chairman
- Mr. Sajjad Ahmad - Managing Director
- Mr. Salem Bin Mohammed Al Shamsi - Director
- Mr Yousif Mohamed Al Rasheed - Director
- Mr Bhaskar Banerji - General Manager (resigned with effect from January 12, 2009)

Transactions with entities controlled by the shareholders of the Company included in the income statement are as follows:

|                                 | <b>2008</b>      | <b>2007</b>      |
|---------------------------------|------------------|------------------|
|                                 | <b>AED</b>       | <b>AED</b>       |
| <b>Sales:</b>                   |                  |                  |
| United Kaipara Dairies Co (PSC) | 8,078,943        | 6,093,775        |
| Modern Bakery                   | 1,336,898        | 1,115,610        |
|                                 | <u>9,415,841</u> | <u>7,209,385</u> |

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**25 RELATED PARTY TRANSACTIONS (CONTINUED)**

|                                 | <b>2008</b>       | <b>2007</b>       |
|---------------------------------|-------------------|-------------------|
|                                 | <b>AED</b>        | <b>AED</b>        |
| <b>Purchases:</b>               |                   |                   |
| United Kaipara Dairies Co (PSC) | 148,666           | 156,386           |
| Modern Bakery                   | 33,665            | 28,413            |
| United Can Company LLC          | 40,128,717        | 33,910,727        |
| Modern General Trading          | 8,626             | 4,762             |
| Dubai Refreshments              | 29,599            | 31,873            |
|                                 | <u>40,349,273</u> | <u>34,132,161</u> |

**Compensation paid to the key managerial Personnel**

|                           |           |           |
|---------------------------|-----------|-----------|
| Salaries and allowances   | 2,450,321 | 1,311,790 |
| Distribution to directors | -         | 250,000   |

Balances as at the reporting date with entities controlled by shareholders of the Company are as follows:

**Amounts due to**

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| United Can Company (L.L.C)      | 8,006,182        | 8,821,819        |
| United Kaipara Dairies Co (PSC) | 38,790           | 90,265           |
| Modern Bakery                   | 10,182           | 7,330            |
| Modern General Trading          | 1,546            | 941              |
| Dubai Refreshments              | 4,380            | 4,689            |
|                                 | <u>8,061,080</u> | <u>8,925,044</u> |

**Amounts due from**

|                                 |                |                  |
|---------------------------------|----------------|------------------|
| United Can Company (L.L.C)      | -              | 208              |
| United Kaipara Dairies Co (PSC) | 205,457        | 1,023,608        |
| Modern Bakery                   | 409,508        | 346,911          |
|                                 | <u>614,965</u> | <u>1,370,727</u> |

**Amounts due to key managerial personnel**

|                           |   |         |
|---------------------------|---|---------|
| Distribution to directors | - | 250,000 |
|---------------------------|---|---------|

**UNITED FOODS COMPANY (PSC)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 31 December 2008**

**26 CAPITAL COMMITMENTS**

The capital commitments of the Company as at 31 December 2008 were AED 986,238 (2007: AED 88,601).

**27 CONTINGENT AND OTHER COMMITMENTS**

|                                                         | <b>2008</b> | <b>2007</b> |
|---------------------------------------------------------|-------------|-------------|
|                                                         | <b>AED</b>  | <b>AED</b>  |
| Export sales made through irrevocable letters of credit | 30,182,407  | 28,169,737  |
| Purchase commitments                                    | 37,062,200  | 50,615,070  |
| Guarantees issued by banks on behalf of the Company     | 978,360     | 1,043,011   |

Purchase commitments represent contracts for purchase of oil in future entered into by the Company for use in manufacture and processing of cooking oils, butter and related products.

**28 OPERATING LEASE OBLIGATIONS**

Lease payments recognized as an expense amount to AED 1,247,477 (2007; AED 2,114,502).

The company's minimum future lease payments as at 31 December 2008 are as under:

|                                                   |           |           |
|---------------------------------------------------|-----------|-----------|
| not later than one year                           | 606,168   | 574,487   |
| later than one year and not later than five years | 1,224,525 | 1,224,525 |
| later than five years                             | -         | 244,905   |

The land at Jebel Ali Industrial Area is taken on lease for annual rent of AED 244,905 for 10 years ending December 2013, which can be renewed for further period of 10 years [note 3 (i) (b)].

**29 Comparatives**

Previous year's balances have been reclassified wherever necessary to conform to current year's presentation and this reclassification does not affect previous year's net profit, increase in cash and cash equivalents and net worth of the Company.