

**United Kaipara Dairies Company (PSC)  
and its subsidiary**

**Consolidated financial statements**  
*31 December 2007*

# United Kaipara Dairies Company (PSC) and its subsidiary

## Financial statements

31 December 2007

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**UNITED KAIPARA DAIRIES CO. (P.S.C.)**

P.O.Box: 6424, Dubai, United Arab Emirates  
Tel. : (04) 3382133, Fax: (04) 3383099  
E-mail: info@unikaifoods.com  
website: www.unikaifoods.com

شركة كايبارا المتحدة للألبان (ش.م.ع.)

ص.ب. ٦٤٢٤، دبي، الإمارات العربية المتحدة  
هاتف: ٣٣٨٢١٣٣ (٠٤) فاكس: ٣٣٨٣٠٩٩ (٠٤)  
البريد الإلكتروني: info@unikaifoods.com

### REPORT OF THE BOARD OF DIRECTORS

Dear Members,

The Directors have pleasure in placing before you the Balance Sheet of the Company as at 31<sup>st</sup> December 2007 and the Profit & Loss Account for the year then ended together with the Auditors' Report on these financial statements.

The Company registered an overall growth of 9% in turnover. The sales value for the year increased to Dh. 309.59 million as compared to sale of Dh. 283.93 million in the corresponding period of the previous year.

The Company posted a net profit of Dh. 21,012,048 during the period (full year) under review as compared to 6 month's (July-Dec. 2006) profit of Dh. 12,328,718 for the previous period.

After adding unappropriated profit of Dh. 21,743 from the previous year, the net profit available amounts to Dh. 21,033,791 which is proposed to be appropriated as under:

|                                   | <u>Dhs.</u> |
|-----------------------------------|-------------|
| - Directors' Fee                  | 500,000     |
| - Proposed Dividend @ 30%         | 7,500,000   |
| - Transfer to General Reserve     | 13,000,000  |
| - Retained Profit carried forward | 33,791      |

On behalf of the Board

Dated: March 15, 2008

Abdul Rahman Mohd.  
Bin Nasser Al Owais  
(Chairman)





P O Box 3800  
Level 32, Emirates Towers  
Sheikh Zayed Road  
Dubai  
United Arab Emirates

Telephone +971 (4) 403 0300  
Fax +971 (4) 330 1515  
Website [www.ae-kpmg.com](http://www.ae-kpmg.com)

## **Independent auditors' report**

The Shareholders  
United Kaipara Dairies Company (PSC)

### **Report on the financial statements**

We have audited the accompanying financial statements of United Kaipara Dairies Company (PSC) ("the Company") and its subsidiary (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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 consolidated 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 consolidated financial statements that are free from material misstatements, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and its subsidiary and wherever appropriate, the UAE Federal Law No. 8 of 1984 (as amended).

### **Report on other legal and regulatory requirements**

As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group, that a physical count of inventories was carried out by Management in accordance with established principles, and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2007, which may have had a material adverse effect on the business of the Group or its financial position.

## United Kaipara Dairies Company (PSC) and its subsidiary

### Consolidated income statement for the year ended 31 December 2007

|                                     | <i>Note</i> | <b>Year ended<br/>31 December 2007</b> | <b>Six month<br/>Period ended<br/>31 December 2006</b> |
|-------------------------------------|-------------|----------------------------------------|--------------------------------------------------------|
|                                     |             | <b>AED'000</b>                         | <b>AED'000</b>                                         |
| <b>Sales</b>                        |             | <b>309,590</b>                         | <b>153,625</b>                                         |
| Cost of sales                       | 5           | (205,912)                              | (101,947)                                              |
| <b>Gross profit</b>                 |             | <b>103,678</b>                         | <b>51,678</b>                                          |
| Administrative and general expenses | 6           | (83,180)                               | (41,496)                                               |
| Finance income and expense (net)    | 7           | (1,160)                                | (40)                                                   |
| Other income                        | 8           | 1,843                                  | 2,250                                                  |
| <b>Net profit before tax</b>        |             | <b>21,181</b>                          | <b>12,392</b>                                          |
| Taxation                            | 14          | (169)                                  | (63)                                                   |
| <b>Profit after tax</b>             |             | <b>21,012</b>                          | <b>12,329</b>                                          |

The notes on pages 7 to 25 form part of these consolidated financial statements.

The independent auditors' report is set out on page 2.

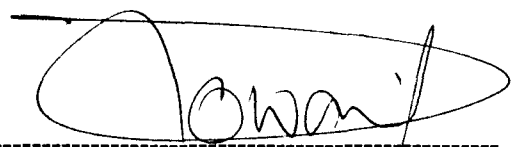
# United Kaipara Dairies Company (PSC) and its subsidiary

## Consolidated balance sheet at 31 December 2007

|                                       | Note | 2007<br>AED'000 | 2006<br>AED'000 |
|---------------------------------------|------|-----------------|-----------------|
| <b>Property, plant and equipment</b>  | 9    | 56,261          | 49,976          |
| <b>Available for sale investments</b> | 10   | 7,157           | 5,828           |
| <b>Current assets</b>                 |      |                 |                 |
| Inventories                           | 11   | 87,043          | 61,778          |
| Trade and other receivables           | 12   | 31,640          | 30,868          |
| Cash at bank and in hand              | 13   | 2,975           | 3,828           |
|                                       |      | <u>121,658</u>  | <u>96,474</u>   |
| <b>Current liabilities</b>            |      |                 |                 |
| Trade and other payables              | 14   | 45,645          | 52,878          |
| Due to related parties                | 15   | 2,524           | 3,324           |
| Bank Overdraft                        |      | 28,521          | 5,963           |
|                                       |      | <u>76,690</u>   | <u>62,165</u>   |
| <b>Net current assets</b>             |      | <u>44,968</u>   | <u>34,309</u>   |
| <b>Net assets</b>                     |      | <u>108,386</u>  | <u>90,113</u>   |
| <b>Represented by:</b>                |      |                 |                 |
| Share capital                         | 16   | 25,000          | 25,000          |
| Reserves                              | 17   | 83,386          | 65,113          |
|                                       |      | <u>108,386</u>  | <u>90,113</u>   |

The notes on pages 7 to 25 form part of these consolidated financial statements.

These consolidated financial statements were authorized for issue on behalf of the Board of Directors on 11/12/2007



Abdul Rahman Mohammad Bin Nasser Al Owais  
Chairman



Yousuf Mohammad Al Mulla  
Vice Chairman

The independent auditors' report is set out on page 2.

## United Kaipara Dairies Company (PSC) and its subsidiary

### Consolidated statement of cash flows for the year ended 31 December 2007

|                                                            | Year ended<br>31 December 2007 | Six month<br>Period ended<br>31 December 2006 |
|------------------------------------------------------------|--------------------------------|-----------------------------------------------|
|                                                            | AED'000                        | AED'000                                       |
| <b>Operating activities</b>                                |                                |                                               |
| Net profit before tax for the year/period                  | 21,181                         | 12,392                                        |
| <i>Adjustment for:</i>                                     |                                |                                               |
| Depreciation                                               | 11,549                         | 5,741                                         |
| (Profit)/loss on disposal of property, plant and equipment | (1)                            | 18                                            |
|                                                            | <u>32,729</u>                  | <u>18,151</u>                                 |
| <i>Operating profit before working capital changes</i>     |                                |                                               |
| Change in inventories                                      | (25,265)                       | (12,762)                                      |
| Change in trade and other receivables                      | (772)                          | (2,014)                                       |
| Change in trade and other payables                         | (7,328)                        | (5,302)                                       |
| Change in due to related parties                           | (800)                          | (1,192)                                       |
| Tax paid                                                   | (74)                           | (15)                                          |
|                                                            | <u>(1,510)</u>                 | <u>(3,134)</u>                                |
| <i>Net cash flows from operating activities</i>            |                                |                                               |
| <b>Investing activities</b>                                |                                |                                               |
| Acquisition of property, plant and equipment               | (18,085)                       | (6,939)                                       |
| Proceeds from disposal of property, plant & equipment      | 252                            | 25                                            |
| Acquisition of investments                                 | (18)                           | (250)                                         |
|                                                            | <u>(17,851)</u>                | <u>(7,164)</u>                                |
| <i>Net cash flows from investing activities</i>            |                                |                                               |
| <b>Financing activities</b>                                |                                |                                               |
| Directors' fees paid                                       | (300)                          | (240)                                         |
| Dividend paid                                              | (3,750)                        | -                                             |
|                                                            | <u>(4,050)</u>                 | <u>(240)</u>                                  |
| <i>Net cash flows from financing activities</i>            |                                |                                               |
| <b>Net decrease in cash and cash equivalents</b>           | <b>(23,411)</b>                | <b>(10,538)</b>                               |
| Cash and cash equivalents at beginning of the year/period  | (2,135)                        | 8,403                                         |
| <b>Cash and cash equivalents at end of the year/period</b> | <b>(25,546)</b>                | <b>(2,135)</b>                                |
| These comprise the following:                              |                                |                                               |
| Cash in hand and at bank                                   | 2,975                          | 3,828                                         |
| Bank overdraft                                             | (28,521)                       | (5,963)                                       |
| <b>Cash and cash equivalents at end of the year/period</b> | <b>(25,546)</b>                | <b>(2,135)</b>                                |

The notes on pages 7 to 25 form part of these consolidated financial statements.

The independent auditors' report is set out on page 2.

## United Kaipara Dairies Company (PSC) and its subsidiary

### Consolidated statement of changes in equity for the year ended 31 December 2007

|                                                              | Share<br>capital<br>AED'000 | Legal<br>reserve<br>AED'000 | General<br>reserve<br>AED'000 | Fixed assets<br>replacement<br>reserve<br>AED'000 | Retained<br>earnings<br>AED'000 | Proposed<br>dividend<br>AED'000 | Directors'<br>fees<br>AED'000 | Fair<br>value<br>reserve<br>AED'000 | Total<br>AED'000 |
|--------------------------------------------------------------|-----------------------------|-----------------------------|-------------------------------|---------------------------------------------------|---------------------------------|---------------------------------|-------------------------------|-------------------------------------|------------------|
| At 1 July 2006                                               | 25,000                      | 12,325                      | 28,350                        | 12,100                                            | 9                               | 5,000                           | 300                           | -                                   | 83,084           |
| Dividend paid                                                | -                           | -                           | -                             | -                                                 | -                               | (5,000)                         | -                             | -                                   | (5,000)          |
| Director's fees paid                                         | -                           | -                           | -                             | -                                                 | -                               | -                               | (300)                         | -                                   | (300)            |
| Transfer to legal reserve                                    | -                           | 966                         | -                             | -                                                 | (966)                           | -                               | -                             | -                                   | -                |
| Transfer to fixed asset<br>replacement reserves              | -                           | -                           | -                             | 2,900                                             | (2,900)                         | -                               | -                             | -                                   | -                |
| Directors' fees accrued                                      | -                           | -                           | -                             | -                                                 | (300)                           | -                               | 300                           | -                                   | -                |
| Proposed dividend                                            | -                           | -                           | -                             | -                                                 | (3,750)                         | 3,750                           | -                             | -                                   | -                |
| Transfer to general reserve                                  | -                           | -                           | 4,400                         | -                                                 | (4,400)                         | -                               | -                             | -                                   | -                |
| Net profit for the period                                    | -                           | -                           | -                             | -                                                 | 12,329                          | -                               | -                             | -                                   | 12,329           |
| At 31 December 2006                                          | <u>25,000</u>               | <u>13,291</u>               | <u>32,750</u>                 | <u>15,000</u>                                     | <u>22</u>                       | <u>3,750</u>                    | <u>300</u>                    | <u>-</u>                            | <u>90,113</u>    |
| At 1 July 2007                                               | 25,000                      | 13,291                      | 32,750                        | 15,000                                            | 22                              | 3,750                           | 300                           | -                                   | 90,113           |
| Dividend paid                                                | -                           | -                           | -                             | -                                                 | -                               | (3,750)                         | -                             | -                                   | (3,750)          |
| Director's fees paid                                         | -                           | -                           | -                             | -                                                 | -                               | -                               | (300)                         | -                                   | (300)            |
| Directors' fees accrued                                      | -                           | -                           | -                             | -                                                 | (500)                           | -                               | 500                           | -                                   | -                |
| Proposed dividend                                            | -                           | -                           | -                             | -                                                 | (7,500)                         | 7,500                           | -                             | -                                   | -                |
| Transfer to general reserve                                  | -                           | -                           | 13,000                        | -                                                 | (13,000)                        | -                               | -                             | -                                   | -                |
| Net profit for the period                                    | -                           | -                           | -                             | -                                                 | 21,012                          | -                               | -                             | -                                   | 21,012           |
| Fair value adjustment on<br>available for sale<br>investment | -                           | -                           | -                             | -                                                 | -                               | -                               | -                             | 1,311                               | 1,311            |
| At 31 December 2007                                          | <u>25,000</u>               | <u>13,291</u>               | <u>45,750</u>                 | <u>15,000</u>                                     | <u>34</u>                       | <u>7,500</u>                    | <u>500</u>                    | <u>1,311</u>                        | <u>108,386</u>   |

The notes on pages 7 to 25 form part of these consolidated financial statements.

# United Kaipara Dairies Company (PSC) and its subsidiary

## Notes

*(forming part of the consolidated financial statements)*

### 1 Reporting entity

United Kaipara Dairies Company (PSC) ("the Company") is a Public Shareholding Company, incorporated on 11 April 1977 by a Decree from His Highness, The Ruler of Dubai. On 8 June 1994, the Company amended its status to a public shareholding company to comply with the provisions of the UAE Federal Law No. 8 of 1984 (as amended). The Company holds 100% equity in Unikai and Company LLC ("the subsidiary"), registered as a limited liability Company in the Sultanate of Oman under the Oman Commercial Register Law No. 3/74. The Company and its subsidiary are collectively referred to as ("the Group"). The legal status of the subsidiary is set out in note 20.

The Group is engaged in the manufacture of dairy, juice and ice cream products and import of various kinds of food products for distribution throughout the Gulf. The trading activities of the Group are carried on in the name of "Unikai International". The registered address of the Company is P.O. Box 6424, Dubai, UAE.

### 2 Basis of preparation

#### *Statement of compliance*

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and the requirements relevant to Articles of the Company and its subsidiary and wherever appropriate, the UAE Federal Law No. 8 of 1984 (as amended).

#### *Basis of measurement*

These consolidated financial statements have been prepared on the historical cost basis except for investment in quoted securities, which are measured at fair value.

#### *Functional and presentation currency*

These consolidated financial statements are presented in UAE Dirham's ("AED") which is the Company's functional currency.

#### *Use of estimates and judgments*

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are discussed in note 22.

### 3 Significant accounting policies

The following accounting policies, which comply with IFRS, have been applied consistently in dealing with items that are considered material in relation to the Group's consolidated financial statements.

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### **Basis of consolidation**

###### *Subsidiaries*

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

###### *Transactions eliminated on consolidation*

Intra-group balances, and any unrealized income and expenses arising from intra group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transaction with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

##### **Turnover**

Turnover comprises amounts invoiced to third parties for goods delivered falling within the Group's ordinary activities, after deduction of discounts given in the ordinary course of business.

##### **Revenue recognition**

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, recovery of consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement of the goods.

##### **Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is recognized in the income statement on a straight line basis over the estimated useful lives of items of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

| <b>Assets</b>                            | <b>Life (years)</b> |
|------------------------------------------|---------------------|
| Buildings                                | 20                  |
| Plant and equipment                      | 5 to 10             |
| Transport and distribution equipment     | 3 to 6              |
| Furniture, fixtures and office equipment | 4                   |

The depreciation method, estimation of useful lives and residual values are reassessed at the reporting date by the management. Any change is allocated for as a change for the current and future periods.

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes *(continued)*

#### 3 Significant accounting policies (continued)

##### **Inventories**

Inventories are valued at the lower of cost and net realizable value with due allowance for obsolete and slow moving items. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to completion and selling expenses. Cost includes:

- finished goods are stated at the cost of direct materials and labour plus attributable overheads based on normal level of activity; and
- other inventories are stated at material cost on weighted average basis and all expenses incurred in bringing each item to its present location and condition.

##### **Financial instruments**

###### **Non-derivative financial instruments**

Non-derivative financial instruments comprise investment in equity securities, trade and other receivables, cash and cash equivalents, due to related parties and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured at described below.

###### *Available for sale investments*

Available for sale investment are stated at fair value, with any resultant gain or loss being recognized directly in equity, except for impairment losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in the income statement. However, the investments which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost, including transaction costs, less impairment losses, if any.

###### *Other*

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less impairment losses.

###### *Cash and cash equivalent*

Cash and cash equivalent comprise cash in hand and at bank. Bank overdrafts that are repayable on demand and form integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statements of cash flows.

##### **Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes (continued)

#### 3 Significant accounting policies (continued)

##### **Government grants**

Government grants are recognized initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the group for the cost of an asset are recorded at nominal value.

##### **Staff terminal benefits**

The provision for staff terminal benefits, included in trade and other payables, is calculated in accordance with the UAE Federal Labour Law applicable to the Company and the relevant local laws applicable to its subsidiary and is based on the liability that would arise if the employment of all the Group's staff were terminated at the balance sheet date. The Group contributes to the Public Authority of Pensions and Social Securities in accordance with the Pension and Social Securities Law, Federal Law No (7) of 1999 in respect of UAE nationals and to the Oman Social Insurance Scheme in respect of Omani Nationals employed and the pension amount is recognized as expense when incurred.

##### **Taxation**

The Group accounts for provision for income tax for the profit earned on its operations in Oman each year. The tax provision reflects tax liability relating to profit of the Oman operations. Income tax for the year comprises current and deferred tax. Income tax on the profit or loss of the operations for the year is recognized in the income statement. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

##### **Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

# United Kaipara Dairies Company (PSC) and its subsidiary

## Notes (continued)

### 3 Significant accounting policies (continued)

#### Finance income and expense

Finance income comprise of interest income. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance expense comprise interest expense on borrowings and impairment losses recognized on trade receivables. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All borrowing costs are recognized in profit and loss account using the effective interest method.

#### Impairment

##### *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measure at amortized cost is calculated as the difference between the carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in the income statement.

##### *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

#### New standard and interpretation not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements with particular to the Group is Revised IAS 23 *Borrowing Costs*, which removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements. However, currently the Group does not have any borrowings.

### 4 Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes *(continued)*

#### 4 Financial risk management (continued)

##### Overview (continued)

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's senior management is responsible for developing and monitoring the Group's risk management policies. The Group's senior management reports to the Board of Directors on its activities.

##### *Credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is mainly attributable to trade receivables. The exposure to credit risk on trade receivables and due from related parties is monitored on an ongoing basis by the management and these are considered recoverable by the Group's management.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and the country, in which customer operate, has less of an influence on credit risk. Geographically there is no concentration of credit risk.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main component of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Group of similar assets in respect of losses that have been incurred but not yet identified.

Bank balances are with local and international banks of repute.

##### *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk mainly relates to payables to suppliers and related parties. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

##### *Market rate risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return. The Group manages its market rate risks as follows:

# United Kaipara Dairies Company (PSC) and its subsidiary

## Notes (continued)

### 4 Financial risk management (continued)

#### *Market rate risk (continued)*

##### *Currency risk*

The Group is mainly exposed to currency risk on purchases and payables that are denominated in a currency other than the respective functional currency of the Group entities, primarily Euro ("EUR").

The Company also has transactions denominated in United States Dollar ("USD") and Omani Riyals ("OR"). However, the Group is not exposed to the currency risk as the AED and OR are pegged to the USD.

The Group does not hedge the currency risk in respect of its foreign currency exposure. Management ensures that its foreign currency exposure is kept at an acceptable level by monitoring its purchases and buying and selling foreign currencies at spot rates when necessary to correct short term imbalances.

##### *Interest rate risk*

The Group's exposure to interest rate risk is primarily on its borrowings with banks. The interest rate on the Group's financial instruments is based on market rates. The Group adopts a policy of ensuring a mix between fixed interest borrowings and variable interest borrowings.

##### *Equity price risk*

Equity price risk arises from available-for-sale quoted equity securities held by the Group. Management of the Group monitors equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors.

The primary goal of the Group's investment strategy is to maximize investment returns.

##### *Capital management*

The Board's policy is to maintain a strong capital base to sustain future development of the business. The Board of Directors monitors the return on capital through operating cash flow management. The Board seeks to maintain a balance between the higher returns and the advantages and security offered by a sound capital position. There is no change in the Group's approach to capital management during the current year.

### 5 Cost of sales

|                       | Year ended<br>31 December 2007<br>AED'000 | Six month<br>period ended<br>31 December 2006<br>AED'000 |
|-----------------------|-------------------------------------------|----------------------------------------------------------|
| <i>This includes:</i> |                                           |                                                          |
| Direct labour         | 4,881                                     | 2,987                                                    |

# United Kaipara Dairies Company (PSC) and its subsidiary

## Notes (continued)

### 6 Administrative and general expenses

|                             | Year ended<br>31 December 2007<br>AED'000 | Six month<br>period ended<br>31 December 2006<br>AED'000 |
|-----------------------------|-------------------------------------------|----------------------------------------------------------|
| <i>This includes:</i>       |                                           |                                                          |
| Staff related costs         | 38,179                                    | 17,870                                                   |
| Depreciation                | 11,549                                    | 5,741                                                    |
| Commercial vehicle expenses | 14,595                                    | 7,706                                                    |
| Utilities                   | 6,398                                     | 3,731                                                    |
| Rent and taxes              | 2,620                                     | 1,084                                                    |
|                             | <u>          </u>                         | <u>          </u>                                        |

### 7 Finance income and expense (net)

|                                      | Year ended<br>31 December 2007<br>AED'000 | Six month<br>period ended<br>31 December 2006<br>AED'000 |
|--------------------------------------|-------------------------------------------|----------------------------------------------------------|
| Interest income                      | -                                         | 96                                                       |
| Interest expense                     | (891)                                     | (136)                                                    |
| Impairment loss on trade receivables | (269)                                     | -                                                        |
|                                      | <u>          </u>                         | <u>          </u>                                        |
|                                      | (1,160)                                   | (40)                                                     |
|                                      | <u>          </u>                         | <u>          </u>                                        |

### 8 Other income

|                                                 | Year ended<br>31 December 2007<br>AED'000 | Six months<br>period ended<br>31 December 2006<br>AED'000 |
|-------------------------------------------------|-------------------------------------------|-----------------------------------------------------------|
| <i>This includes:</i>                           |                                           |                                                           |
| Sale of Scrap                                   | 542                                       | 259                                                       |
| Foreign exchange gains                          | 342                                       | 129                                                       |
| Write back of provisions made in previous years | 806                                       | 1,831                                                     |
|                                                 | <u>          </u>                         | <u>          </u>                                         |

# United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

## 9 Property, plant and equipment

|                       | Land & Buildings<br>AED' 000 | Plant & equipment<br>AED' 000 | Transport & distribution<br>equipment<br>AED' 000 | Furniture, fixtures & office<br>equipment<br>AED' 000 | Capital work in<br>Progress<br>AED' 000 | Total<br>AED' 000 |
|-----------------------|------------------------------|-------------------------------|---------------------------------------------------|-------------------------------------------------------|-----------------------------------------|-------------------|
| <b>Cost</b>           |                              |                               |                                                   |                                                       |                                         |                   |
| At 1 July 2006        | 33,774                       | 54,578                        | 68,361                                            | 2,972                                                 | 3,044                                   | 162,729           |
| Additions             | 42                           | 3,035                         | 2,637                                             | 131                                                   | 1,094                                   | 6,939             |
| Disposals             |                              |                               | (1,668)                                           | (40)                                                  |                                         | (1,708)           |
| At 31 December 2006   | 33,816                       | 57,613                        | 69,330                                            | 3,063                                                 | 4,138                                   | 167,960           |
| At 1 January 2007     | 33,816                       | 57,613                        | 69,330                                            | 3,063                                                 | 4,138                                   | 167,960           |
| Additions             | 3,340                        | 2,637                         | 4,227                                             | 496                                                   | 7,385                                   | 18,085            |
| Transfer In / Out     | 2,944                        | 175                           | 17                                                | -                                                     | (3,136)                                 | -                 |
| Disposals             | (550)                        | (565)                         | (1,244)                                           | (164)                                                 | -                                       | (2,523)           |
| At 31 December 2007   | 39,550                       | 59,860                        | 72,330                                            | 3,395                                                 | 8,387                                   | 183,522           |
| <b>Depreciation</b>   |                              |                               |                                                   |                                                       |                                         |                   |
| At 1 July 2006        | 22,160                       | 33,773                        | 55,549                                            | 2,426                                                 | -                                       | 113,908           |
| Charge for the period | 565                          | 1,933                         | 3,104                                             | 139                                                   | -                                       | 5,741             |
| On disposals          | -                            | -                             | (1,625)                                           | (40)                                                  | -                                       | (1,665)           |
| At 31 December 2006   | 22,725                       | 35,706                        | 57,028                                            | 2,525                                                 | -                                       | 117,984           |
| At 1 January 2007     | 22,725                       | 35,706                        | 57,028                                            | 2,525                                                 | -                                       | 117,984           |
| Charge for the period | 1,265                        | 3,961                         | 6,016                                             | 307                                                   | -                                       | 11,549            |
| On disposals          | (337)                        | (565)                         | (1,206)                                           | (164)                                                 | -                                       | (2,272)           |
| At 31 December 2007   | 23,653                       | 39,102                        | 61,838                                            | 2,668                                                 | -                                       | 127,261           |
| <b>Net book value</b> |                              |                               |                                                   |                                                       |                                         |                   |
| At 31 December 2007   | 15,897                       | 20,758                        | 10,492                                            | 727                                                   | 8,387                                   | 56,261            |
| At 31 December 2006   | 11,091                       | 21,907                        | 12,302                                            | 538                                                   | 4,138                                   | 49,976            |

The Government of Dubai had granted land to the Group for setting up the manufacturing facility that has been recorded at a nominal value.

Land and buildings comprise of certain buildings constructed on land leased to the Group. The lease is renewable every year and management believes that the lease would be available to the Group on an on-going basis in the foreseeable future.

## 10 Available for sale investments

|                                     | 2007<br>AED'000 | 2006<br>AED'000 |
|-------------------------------------|-----------------|-----------------|
| Opening Balance *                   | 5,828           | 5,578           |
| Additions during the year/period ** | 18              | 250             |
| Gain on fair valuation              | 1,311           | -               |
| Closing Balance                     | 7,157           | 5,828           |

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes (continued)

#### 10 Available for sale investments (continued)

\* Represents investment of AED 5.6 million and 0.25 million in unquoted equity shares of Rawabi Emirates PJSC and quoted equity shares of Dubai Financial Market PJSC respectively.

\*\* During the year, the Group had invested in quoted shares of DP World.

The investment in Rawabi Emirates PJSC does not have a quoted market price in an active market. As a result the fair value cannot be reliably measured and are stated at cost, less impairment losses if any. As for the quoted shares in Dubai Financial Market PJSC and DP World, the investment has been valued at fair value at the balance sheet date and the change therein has been recognized directly in equity.

#### 11 Inventories

|                                             | 2007<br>AED'000 | 2006<br>AED'000 |
|---------------------------------------------|-----------------|-----------------|
| Raw materials and packing materials         | 60,059          | 40,469          |
| Work in process                             | 1,237           | 1,287           |
| Finished products                           | 3,563           | 3,304           |
| Trading stock                               | 12,311          | 9,772           |
| Consumable stores and spare parts           | 8,150           | 6,290           |
|                                             | <u>85,320</u>   | <u>61,122</u>   |
| Less: Provision for slow moving inventories | (3,527)         | (2,617)         |
|                                             | <u>81,793</u>   | <u>58,505</u>   |
| Goods in transit                            | 5,250           | 3,273           |
|                                             | <u>87,043</u>   | <u>61,778</u>   |

#### 12 Trade and other receivables

|                                            | 2007<br>AED'000 | 2006<br>AED'000 |
|--------------------------------------------|-----------------|-----------------|
| Trade receivables                          | 30,783          | 29,711          |
| Less: Provision for bad and doubtful debts | (2,469)         | (2,317)         |
|                                            | <u>28,314</u>   | <u>27,394</u>   |
| Advances, deposit and prepayments          | 3,326           | 3,474           |
|                                            | <u>31,640</u>   | <u>30,868</u>   |

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes (continued)

#### 13 Cash at bank and in hand

|              | 2007<br>AED'000 | 2006<br>AED'000 |
|--------------|-----------------|-----------------|
| Cash in hand | 440             | 644             |
| Cash at bank | 2,535           | 3,184           |
|              | <u>2,975</u>    | <u>3,828</u>    |

#### 14 Trade and other payables

|                             | 2007<br>AED'000 | 2006<br>AED'000 |
|-----------------------------|-----------------|-----------------|
| Trade payables              | 20,797          | 22,156          |
| Employee terminal benefits  | 9,833           | 9,218           |
| Other payables and accruals | 14,682          | 16,266          |
| Provision for taxation      | 333             | 238             |
| Dividend Payable            | -               | 5,000           |
|                             | <u>45,645</u>   | <u>52,878</u>   |

#### Movement in tax provision account is

|                            | 2007<br>AED'000 | 2006<br>AED'000 |
|----------------------------|-----------------|-----------------|
| Opening balance            | 238             | 190             |
| Tax paid for prior years   | (74)            | (15)            |
| Current year tax provision | 169             | 63              |
|                            | <u>333</u>      | <u>238</u>      |

The tax charge is in respect of Oman operations. Unikai and Company LLC ("the subsidiary") (refer note 20) is liable to income tax in accordance with the income tax laws of the Sultanate of Oman at the rates ranging from 0% to 30% depending on the level of its taxable profits. In the opinion of the management, provision amounting to AED 0.3 million is adequate to meet the Group's tax liabilities.

#### 15 Related party transactions

The Group, in the ordinary course of business, enters into transactions with other business enterprises that fall within the definition of a related party contained in International Accounting Standard No. 24. Such transactions are executed at mutually agreed rates.

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes (continued)

#### 15 Related party transactions (continued)

Significant transactions with related parties other than those disclosed elsewhere in these consolidated financial statements are as follows:

|                                                             | 2007<br>AED'000   | 2006<br>AED'000   |
|-------------------------------------------------------------|-------------------|-------------------|
| Sales to related parties                                    | 654               | 257               |
| Purchases from related parties                              | 13,299            | 6,266             |
|                                                             | <u>          </u> | <u>          </u> |
| The compensation to key management personnel is as follows: |                   |                   |
| Employee benefits (including remuneration)                  | 1,424             | 630               |
|                                                             | <u>          </u> | <u>          </u> |
| <b>Due to related parties</b>                               |                   |                   |
| United Foods Company PSC                                    | 921               | 1,524             |
| United Cans Company LLC                                     | 1,603             | 1,800             |
|                                                             | <u>          </u> | <u>          </u> |
|                                                             | 2,524             | 3,324             |
|                                                             | <u>          </u> | <u>          </u> |

#### 16 Share capital

|                                                                                    | 2007<br>AED'000   | 2006<br>AED'000   |
|------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>Authorized share capital</b>                                                    |                   |                   |
| 250,000 shares of AED 100 each                                                     | 25,000            | 25,000            |
|                                                                                    | <u>          </u> | <u>          </u> |
| <b>Issued subscribed and fully paid up</b>                                         |                   |                   |
| 200,102 shares of AED 100 each fully paid up                                       | 20,010            | 20,010            |
| Shares issued for consideration other than cash-<br>49,898 shares of AED 100 each. | 4,990             | 4,990             |
|                                                                                    | <u>          </u> | <u>          </u> |
|                                                                                    | 25,000            | 25,000            |
|                                                                                    | <u>          </u> | <u>          </u> |

#### **Proposed dividend**

In accordance with the articles of association of the Company, the Board of Directors have proposed a dividend of AED 7,500,000 (2006: AED 3,750,000).

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes (continued)

#### 17 Reserves

##### *Legal reserve*

In accordance with the UAE Federal Law No. 8 of 1984 (as amended), a minimum of 10% of the net profit of the Company is allocated every year to a legal reserve. Such allocation shall cease when the reserve equals 50% of the issued share capital of the Company. No transfer from profit of the Holding Company has been made during the year (2006: AED Nil) as the statutory reserve is equal to the 50% of the paid up capital.

In accordance with the Oman Commercial Register Law No. 3/74, a minimum of 10% of the net profit of the Company is allocated every year to a legal reserve. Such allocation shall cease when the reserve equals one third of the issued share capital of the subsidiary. No transfer has been made in the current year (2006: AED 966 thousand).

##### *General reserve*

In accordance with the Company's articles of association, minimum of 10% of the net profits for each year should be transferred to the general reserve. Such allocation may cease when the reserve equals 50% of the paid up share capital of the Company. The reserve is to be used for purposes as recommended by the Board of Directors and approved by the Annual General Meeting.

The general reserve in the books of the Company has reached its limit. However, at each balance sheet date, the Board of Directors continue to approve the transfer a certain percentage of net profit for the year to the general reserve in each year.

##### *Fixed assets replacement reserve*

At each balance sheet date, the Board of Directors decide to transfer a certain percentage of net profit for the year to the fixed assets replacement reserve. This reserve is earmarked for replacement of property, plant and equipment in the future years. This year Board decided not to transfer any amount to fixed assets replacement reserve.

##### *Directors' fees*

Directors' fees have been included as an appropriation of net profit for the year in accordance with the interpretation of the Commercial Companies Law of 1984 (as amended) by the Ministry of Economy and Commerce.

#### 18 Earnings and dividend per share

|                             | 2007<br>AED   | 2006<br>AED   |
|-----------------------------|---------------|---------------|
| Earnings per share          | 84            | 49            |
| Proposed dividend per share | 30            | 15            |
|                             | <u>      </u> | <u>      </u> |

The earnings per share has been calculated by dividing the net profit for the year/period attributable to the shareholders by the number of the issued, subscribed and paid up shares.

## United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

### 19 Contingent liabilities and capital commitments

|                     | 2007<br>AED'000 | 2006<br>AED'000 |
|---------------------|-----------------|-----------------|
| Letters of credits  | 1,247           | 5,326           |
| Bank guarantees     | 4,408           | 2,615           |
| Capital commitments | 9,639           | 8,524           |

### 20 Subsidiary

The Company holds 100% of the shares (2% held by Directors for beneficial interest of the Company) of Unikai and Company LLC ("the subsidiary"), registered as a limited liability Company in the Sultanate of Oman under the Oman Commercial Register Law No. 3/74. Principal activity of the subsidiary is trading in dairy, juice, ice creams and other food products.

### 21 Financial instruments

Financial assets of the Company's include cash at bank and in hand and trade and other receivables. Financial liabilities of the Company include trade and other payables and due to related parties. Accounting policies for financial assets and liabilities are set out in note 3.

#### (a) Credit risk

##### *Exposure to credit risk*

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

|                        | 2007<br>AED'000 | 2006<br>AED'000 |
|------------------------|-----------------|-----------------|
| Trade receivables      | 28,314          | 27,394          |
| Cash and bank balances | 2,975           | 3,828           |
|                        | <u>31,289</u>   | <u>31,222</u>   |

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

|               | Carrying amount |                 |
|---------------|-----------------|-----------------|
|               | 2007<br>AED'000 | 2006<br>AED'000 |
| UAE           | 21,317          | 18,978          |
| Oman          | 6,061           | 7,567           |
| Other regions | 936             | 849             |
|               | <u>28,314</u>   | <u>27,394</u>   |

# United Kaipara Dairies Company (PSC) and its subsidiary

## Notes (continued)

### 21 Financial instruments (continued)

#### (a) Credit risk (continued)

##### *Impairment losses*

The aging of trade receivables at the reporting date was:

|                                 | Gross<br>2007<br>AED'000 | Impairment<br>2007<br>AED'000 | Gross<br>2006<br>AED'000 | Impairment<br>2006<br>AED'000 |
|---------------------------------|--------------------------|-------------------------------|--------------------------|-------------------------------|
| 0-30 days due from invoice date | 12,063                   | 307                           | 10,492                   | 266                           |
| 31- 60 days from invoice date   | 7,468                    | 187                           | 7,273                    | 182                           |
| 61-90 days from invoice date    | 6,128                    | 388                           | 6,589                    | 462                           |
| 91-120 days from invoice date   | 2,286                    | 147                           | 2,934                    | 73                            |
| Above 120 days                  | 2,838                    | 1,440                         | 2,423                    | 1,334                         |
|                                 | <u>30,783</u>            | <u>2,469</u>                  | <u>29,711</u>            | <u>2,317</u>                  |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

|                                  | 2007<br>AED'000 | 2006<br>AED'000 |
|----------------------------------|-----------------|-----------------|
| Balance at 1 January             | 2,317           | 2,977           |
| Impairment loss recognised       | 269             | -               |
| Impairment allowance written off | (117)           | (660)           |
| Balance at 31 December           | <u>2,469</u>    | <u>2,317</u>    |

#### (b) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting of agreements:

At 31 December 2007

|                                             | Carrying<br>amount<br>AED'000 | Contractual<br>cash flows<br>AED'000 | 6 months<br>or less<br>AED'000 | More<br>than 6<br>months<br>AED'000 |
|---------------------------------------------|-------------------------------|--------------------------------------|--------------------------------|-------------------------------------|
| <b>Non-derivative financial liabilities</b> |                               |                                      |                                |                                     |
| Due to related parties                      | 2,524                         | 2,524                                | 2,524                          | -                                   |
| Trade and other payables                    | 45,645                        | 45,645                               | 45,645                         | -                                   |
| Bank Overdraft                              | 28,521                        | 28,521                               | 28,521                         | -                                   |
|                                             | <u>76,690</u>                 | <u>76,690</u>                        | <u>76,690</u>                  | <u>-</u>                            |

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes (continued)

#### 21 Financial instruments (continued)

##### Liquidity risk (continued)

At 31 December 2006

|                                      | Carrying<br>amount<br>AED | Contractual<br>cash flows<br>AED | 6 months<br>or less<br>AED | More<br>than 6<br>months<br>AED |
|--------------------------------------|---------------------------|----------------------------------|----------------------------|---------------------------------|
| Non-derivative financial liabilities |                           |                                  |                            |                                 |
| Due to related parties               | 3,324                     | 3,324                            | 3,324                      | -                               |
| Trade and other payables             | 52,878                    | 52,878                           | 52,878                     | -                               |
| Bank Overdraft                       | 5,963                     | 5,963                            | 5,963                      | -                               |
|                                      | <u>62,165</u>             | <u>62,165</u>                    | <u>62,165</u>              | <u>-</u>                        |

The Group does not have any derivative financial liabilities at the end of the current year or the previous year.

#### (c) Currency risk

##### Exposure to currency risk

The Group's exposure to foreign currency risk (EUR) is as follows:

|                         | 2007<br>AED'000 | 2006<br>AED'000 |
|-------------------------|-----------------|-----------------|
| Trade and other payable | <u>(183)</u>    | <u>(698)</u>    |

The following significant exchange rates applied during the year:

|        | Average rate |              | Reporting date<br>spot rate |              |
|--------|--------------|--------------|-----------------------------|--------------|
|        | 2007<br>AED  | 2006<br>AED  | 2007<br>AED                 | 2006<br>AED  |
| Euro 1 | <u>5.035</u> | <u>4.615</u> | <u>5.411</u>                | <u>4.851</u> |

##### Sensitivity analysis

A 10 percent strengthening of the AED against the following currencies as at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

| Effect in AED'000 | Profit<br>or (loss) |
|-------------------|---------------------|
| 2007              |                     |
| Euro              | <u>18</u>           |
| 2006              |                     |
| Euro              | <u>70</u>           |

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes (continued)

#### 21 Financial instruments (continued)

##### (c) Currency risk (continued)

###### *Sensitivity analysis (continued)*

A 10 percent weakening of the AED against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

In each of the above cases the impact on equity would be the same values as the above amounts.

##### (d) Interest rate risk

###### *Profile*

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

|                                     | Carrying amount |              |
|-------------------------------------|-----------------|--------------|
|                                     | 2007            | 2006         |
|                                     | AED'000         | AED'000      |
| <b>Fixed rate instruments</b>       |                 |              |
| Bank overdrafts repayable on demand | 11,465          | -            |
|                                     | <u>11,465</u>   | <u>-</u>     |
| <b>Variable rate instruments</b>    |                 |              |
| Bank overdrafts repayable on demand | 17,056          | 5,963        |
|                                     | <u>17,056</u>   | <u>5,963</u> |

###### *Fair value sensitivity analysis for fixed rate instruments*

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

###### *Cash flow sensitivity analysis for variable rate instruments*

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

|                           | Profit or loss               |                              | Equity                       |                              |
|---------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                           | 100bp<br>increase<br>AED'000 | 100bp<br>decrease<br>AED'000 | 100bp<br>increase<br>AED'000 | 100bp<br>decrease<br>AED'000 |
| <b>31 December 2007</b>   |                              |                              |                              |                              |
| Variable rate instruments | 170                          | (170)                        | 170                          | (170)                        |
|                           | <u>170</u>                   | <u>(170)</u>                 | <u>170</u>                   | <u>(170)</u>                 |
| <b>31 December 2006</b>   |                              |                              |                              |                              |
| Variable rate instruments | 60                           | (60)                         | 60                           | (60)                         |
|                           | <u>60</u>                    | <u>(60)</u>                  | <u>60</u>                    | <u>(60)</u>                  |

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes (continued)

#### 21 Financial instruments (continued)

##### (e) Equity price risk

###### *Sensitivity analysis*

The following table demonstrates the sensitivity of the Company's equity and profit or loss to a 10 percent change in the price of its equity holdings, assuming all other variables in particular foreign currency rates remain constant.

|                                                           | Effect on<br>profit or loss<br>AED'000 | Effect on<br>equity<br>AED'000 |
|-----------------------------------------------------------|----------------------------------------|--------------------------------|
| <b>31 December 2007</b>                                   |                                        |                                |
| Effect of changes in quoted equity portfolio of the Group | -                                      | 133                            |
|                                                           | <u>          </u>                      | <u>          </u>              |
| <b>31 December 2006</b>                                   |                                        |                                |
| Effect of changes in quoted equity portfolio of the Group | -                                      | 25                             |
|                                                           | <u>          </u>                      | <u>          </u>              |

Sensitivity analysis is done for available for sale investments in quoted securities. Group has an investment of AED 5.6 million in unquoted equity shares of Rawabi Emirates PJSC. Since the investments does not have a quoted market price in an active market, the fair value cannot be reliably measured and are stated at cost, less impairment losses if any. Therefore, no sensitivity analysis is done for investment in unquoted equity shares of Rawabi Emirates PJSC.

For quoted securities, change in price will not have any effect on profit or loss as these investments are available for sale. Any gain or loss arising on fair valuation on available for sale investments is recognized directly in equity.

##### (f) Fair values

The fair value of the Group's financial assets and liabilities approximates their carrying amounts. The basis for determining fair values of financial assets and financial liabilities is as under:

###### *Trade and other receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

###### *Non derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For capital leases the market rate of interest is determined by reference to similar lease agreements.

###### *Investment in equity securities*

The fair value of available for sale financial assets is determined by reference to their quoted bid price at the reporting date.

Qualitative disclosures in respect of financial instruments have been mentioned in note 4.

## United Kaipara Dairies Company (PSC) and its subsidiary

### Notes (continued)

#### 22 Use of estimates and judgments

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the future years mainly comprise of following:

##### *(a) Impairment losses on receivables*

The Group reviews its receivables to assess impairment at least on an annual basis. The Group's credit risk is primarily attributable to its trade receivables. In determining whether impairment losses should be reported in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

##### *(b) Provision for obsolete inventory*

The Group reviews its inventory to assess loss on account of obsolescence on a regular basis. In determining whether provision for obsolescence should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is any future sale ability of the product and the net realizable value for such product. Accordingly, provision for impairment is made where the net realizable value is less than cost based on best estimates by the management. The provision for obsolescence of inventory is based on the ageing and past movement of the inventory

#### 23 Comparative figures

The Previous period figures are for six months and hence are not strictly comparable. The shareholders had resolved to change the year from 30 June to 31 December. Accordingly the previous year financial statements were prepared for six month period ending 31 December 2006.