

United Kaipara Dairies Company (PSC)
and its subsidiary

Consolidated financial statements

31 December 2010

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REPORT OF THE BOARD OF DIRECTORS

Dear Members,

The Directors have pleasure in placing before you the Balance Sheet of the Company as at 31st December 2010 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 6.45% in turnover. The sales value for the year increased to Dh. 372.39 million as compared to sale of Dh. 349.82 million in the corresponding period of the previous year.

The Company posted a net profit of Dh. 18,005,171 during the period under review as compared to last year's profit of Dh. 28,517,108. The profit decreased by 36.86% than last year.

After adding unappropriated profit of Dh. 46,515 from the previous year, the net profit available amounts to Dh. 18,051,686 which is proposed to be appropriated as under:

	<u>Dhs.</u>
- Directors' Fee	750,000
- Transfer to Legal Reserve	1,250,000
- Proposed Dividend @ 25%	6,875,000
- Transfer to General Reserve	6,400,000
- Bonus Share @ 10%	2,750,000
- Retained Profit carried forward	26,686

On behalf of the Board

February 28, 2011


(Chairman)



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Independent auditors' report

The Shareholders
United Kaipara Dairies Company (PSC)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of United Kaipara Dairies Company (PSC) ("the Company") and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, consolidated income statement and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

Report on other legal and regulatory requirements

As required by the UAE 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, a physical count of inventories was carried out by the 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 2010, which may have had a material adverse effect on the business of the Group or its financial position.

06 MAR 2011

Munther Dajani
Registration No: 268

United Kaipara Dairies Company (PSC) and its subsidiary

Consolidated income statement for the year ended 31 December 2010

	<i>Note</i>	2010	2009
		AED'000	AED'000
Revenue		372,392	349,817
Cost of sales	5	(237,934)	(214,821)
Gross profit		134,458	134,996
Administrative and general expenses	6	(117,297)	(107,441)
Finance expense	7	(1,161)	(797)
Other income	8	2,420	2,033
Profit before tax		18,420	28,791
Taxation	14	(415)	(274)
Profit after tax		18,005	28,517
Earnings per share			
Basic earnings per share (AED)	18	65	114

The notes on pages 8 to 32 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 comprehensive income for the year ended 31 December 2010

	<i>Note</i>	2010 AED'000	2009 AED'000
Profit for the year		18,005	28,517
Other comprehensive income:			
Net change in fair value of available for sale investments	10	(89)	157
Total comprehensive income for the year		<u>17,916</u>	<u>28,674</u>

The notes on pages 8 to 32 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

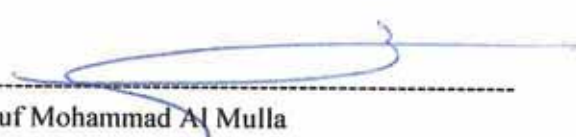
Consolidated statement of financial position at 31 December 2010

	Note	2010 AED'000	2009 AED'000
Property, plant and equipment	9	76,689	74,608
Available for sale investments	10	5,964	6,053
Current assets			
Inventories	11	87,208	94,254
Trade and other receivables	12	43,279	39,415
Cash at bank and in hand	13	2,902	697
		<u>133,389</u>	<u>134,366</u>
Current liabilities			
Trade and other payables	14	60,100	61,821
Due to related parties	15	493	364
Bank overdraft		4,588	11,647
		<u>65,181</u>	<u>73,832</u>
Net current assets		<u>68,208</u>	<u>60,534</u>
Net assets		<u>150,861</u>	<u>141,195</u>
Represented by:			
Share capital	16	27,500	25,000
Reserves	17	123,361	116,195
		<u>150,861</u>	<u>141,195</u>

The notes on pages 8 to 32 form part of these consolidated financial statements.

These consolidated financial statements were authorized for issue on behalf of the Board of Directors on

06 MAR 2011


Yousuf Mohammad Al Mulla
Chairman


Ali Bin Humaid Al-Owais
Director

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 2010

	2010 AED'000	2009 AED'000
Operating activities		
Profit after tax for the year	18,005	28,517
<i>Adjustment for:</i>		
Depreciation	14,305	12,003
Profit on disposal of property, plant and equipment	(399)	(901)
Provision for tax	415	274
Write off of property, plant and equipment	-	2,104
<i>Operating profit before working capital changes</i>	<u>32,326</u>	<u>41,997</u>
Change in inventories	7,047	(10,037)
Change in trade and other receivables	(3,863)	(3,764)
Change in trade and other payables	(1,993)	17,469
Change in due to related parties	128	(585)
Tax paid	(144)	(219)
<i>Net cash from operating activities</i>	<u>33,501</u>	<u>52,389</u>
Investing activities		
Acquisition of property, plant and equipment	(16,815)	(23,113)
Proceeds from disposal of property, plant and equipment	829	1,281
<i>Net cash used in investing activities</i>	<u>(15,987)</u>	<u>(21,832)</u>
Financing activities		
Directors' fees paid	(750)	(500)
Dividend paid	(7,500)	(7,500)
<i>Net cash used in financing activities</i>	<u>(8,250)</u>	<u>(8,000)</u>
Net increase in cash and cash equivalents	9,264	22,557
Cash and cash equivalents at beginning of the year	(10,950)	(33,507)
Cash and cash equivalents at end of the year	<u>(1,686)</u>	<u>(10,950)</u>
These comprise the following:		
Cash in hand and at bank	2,902	697
Bank overdraft	(4,588)	(11,647)
Cash and cash equivalents at end of the year	<u>(1,686)</u>	<u>(10,950)</u>

The notes on pages 8 to 32 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 2010

	Share capital AED'000	Legal reserve AED'000	General reserve AED'000	Fixed assets replacement reserve AED'000	Retained earnings AED'000	Proposed dividend/bonus AED'000	Directors' fees AED'000	Fair value reserve AED'000	Total AED'000
Balance at 1 January 2009	25,000	13,291	59,150	15,000	30	7,500	500	50	120,521
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	28,517	-	-	-	28,517
Other comprehensive income	-	-	-	-	-	-	-	-	-
Net change in fair value of available for sale financial assets	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	28,517	-	-	-	28,517
Transactions with owners, recorded directly in equity	-	-	-	-	-	-	-	-	-
<i>Contributions by and distribution to owners of the Company</i>	-	-	-	-	-	-	-	-	-
Proposed dividend	-	-	-	-	(7,500)	7,500	-	-	-
Proposed issue of bonus share	-	-	-	-	(2,500)	2,500	-	-	-
Dividend paid	-	-	-	-	-	(7,500)	-	-	(7,500)
Directors' fees accrued	-	-	-	-	(750)	-	750	-	-
Directors' fees paid	-	-	-	-	-	-	(500)	-	(500)
Transfer to general reserve	-	-	17,750	-	(17,750)	-	-	-	-
Total contributions by and distribution to owners of the Company	-	-	17,750	-	(28,500)	2,500	250	-	(8,000)
Balance at 31 December 2009	25,000	13,291	76,900	15,000	47	10,000	750	207	141,195

United Kaipara Dairies Company (PSC) and its subsidiary

Consolidated statement of changes in equity

for the year ended 31 December 2010 (continued)

	Share capital AED'000	Legal reserve AED'000	General reserve AED'000	Fixed assets replacement reserve AED'000	Retained earnings AED'000	Proposed dividend/bonus AED'000	Directors' fees AED'000	Fair value reserve AED'000	Total AED'000
Balance at 1 January 2010	25,000	13,291	76,900	15,000	47	10,000	750	207	141,195
Total comprehensive income for the year	-	-	-	-	18,005	-	-	-	18,005
Profit for the year	-	-	-	-	-	-	-	(89)	(89)
Other comprehensive income	-	-	-	-	-	-	-	(89)	(89)
Net change in fair value of available for sale financial assets	-	-	-	-	-	-	-	(89)	(89)
Total comprehensive income for the year	-	-	-	-	18,005	-	-	(89)	17,916
Transactions with owners, recorded directly in equity	-	-	-	-	-	-	-	-	-
<i>Contributions by and distribution to owners of the Company</i>	-	-	-	-	-	-	-	-	-
Proposed dividend	-	-	-	-	(6,875)	6,875	-	-	-
Bonus shares issued	2,500	-	-	-	-	(2,500)	-	-	-
Proposed issue of bonus share	-	-	-	-	(2,750)	2,750	-	-	-
Dividend paid	-	-	-	-	-	(7,500)	-	-	(7,500)
Directors' fees accrued	-	-	-	-	(750)	-	750	-	-
Directors' fees paid	-	-	-	-	-	-	(750)	-	(750)
Transfer to legal reserve	-	1,250	-	-	(1,250)	-	-	-	-
Transfer to general reserve	-	-	6,400	-	(6,400)	-	-	-	-
Total contributions by and distribution to owners of the Company	2,500	1,250	6,400	-	(18,025)	(375)	-	-	(8,250)
Balance at 31 December 2010	27,500	14,541	83,300	15,000	27	9,625	750	118	150,861

The notes on pages 8 to 32 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 and other countries. 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 the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the 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 recognised 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 judgements in applying accounting policies that have most significant effect on the amounts recognised in the consolidated financial statements are described in note 23.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes *(continued)*

3 **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Company.

Basis of consolidation

These consolidated financial statements comprise the consolidated financial position and the consolidated results of operation and consolidated cash flows of the Company and its subsidiary, collectively referred to as ("the Group").

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The results of operations and total assets and liabilities of subsidiaries are included in the consolidated financial statements on a line by line basis and the interest of minority shareholders, if any, in the net assets of subsidiaries is stated separately. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences to the date that control effectively ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated similarly to unrealised 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 measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue from the sale of goods is recognised on profit or loss when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Transfer of risks and rewards usually occurs at the time of delivery of goods to the customers.

Finance expense

Finance expense comprises interest expense on borrowings and impairment losses recognised on trade and other 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.

Interest expense that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

3 Significant accounting policies (continued)

Property, plant and equipment and depreciation

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing cost.

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.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income/ other expense in profit or loss.

Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of the property, plant and equipment are recognised in the profit or loss as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Assets	Life (years)
Buildings	20
Plant and equipment	5 to 10
Transport and distribution equipment	3 to 6
Furniture, fixtures and office equipment	4

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

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 realisable value with due allowance for obsolete and slow moving items. Net realisable 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

(i) Non- derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial assets comprise of loans and receivable and available for sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in active markets. Such assets are recognised initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents comprise cash in hand and at bank in current accounts.

Available for sale investments

Available for sale investments are non-derivative financial assets that are designated as available for sale and that are not classified in any of the other categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities. Investments in equity securities that do not have quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment loss, if any.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

3 Significant accounting policies (continued)

Financial instruments (continued)

ii) *Non-derivative financial liabilities*

The Group's financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

The Group has the following other financial liabilities: bank overdrafts, trade and other payables and due to related parties.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

3 Significant accounting policies (continued)

Impairment (continued)

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised 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. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired assets continued to be recognised.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

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 recognised if the carrying amount of an asset or its related cash generating unit (CGU) exceeds its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Impairment losses are recognised in profit or loss.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

3 Significant accounting policies (continued)

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 Group 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 recognised as expense when incurred.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows that reflects current market assessments of the time value of money and the risks specific to the liability.

Government grants

Government grants are recognised 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.

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. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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 recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

3 Significant accounting policies (continued)

Foreign currency transactions

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rates 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 year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rates at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into AED at the exchange rates at the reporting date, except share capital, which is converted at historical rate. The revenue and expenses of foreign operations are translated to AED at the average exchange rates for the year. Foreign currency differences arising on retranslation are recognised in other comprehensive income.

Earnings per share

The Group presents basic earnings per share (EPS) data for its shares. Basic EPS is calculated by dividing the profit attributable to shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Weighted average number of shares outstanding is retrospectively adjusted to include the affect of any increase in the number of shares without a corresponding change in resources.

New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements:

- **IAS 24 (Revised) - Related Party Disclosures:** The revised IAS 24 *Related Party Disclosures* amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The Group is currently in the process of evaluating the potential effect of this standard. The amendment becomes effective for annual periods beginning on or after 1 January 2011; and
- **IFRS 9 Financial instruments: Classification and measurement (issued in November 2009):** The Board issued the first part of IFRS 9 relating to the classification and measurement of financial assets. IFRS 9 will ultimately replace IAS 39. The standard requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset and subsequently measures the financial assets as either at amortized cost or fair value. The new standard is mandatory for annual periods beginning on or after 1 January 2013. The Group is currently in the process of evaluating the potential effect of this standard.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

4. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk.

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. Further quantitative disclosures are included throughout these consolidated financial statements.

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

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 and other receivables and cash at bank.

Trade receivables

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery term and conditions are offered. Purchase limits are established for each customer, which represents the maximum open amount without requiring specific management approval. These limits are reviewed on an ongoing basis.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. The Group does not have significant exposure to any individual customer or counter-party that has not otherwise been mitigated.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for company of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Cash at bank

The Group's cash is placed with the banks of good repute.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

4 Financial risk management (continued)

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 trade and other payables, due to related parties and bank borrowings. 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.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market 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 exposures within acceptable parameters, while optimising the return.

The Group manages its market rate risks as follows:

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 Group 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.

The Group manages its market rate risks as follows:

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 maximise investment returns.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

4 Financial risk management (continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

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 that might be possible with higher levels of borrowings and the advantages of security afforded by a sound capital position. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend paid to the shareholders and return on capital to shareholders.

There is no change in the Group's approach to capital management during the current year and the Group is not subject to externally imposed capital requirements.

5 Cost of sales

	2010 AED'000	2009 AED'000
<i>These include:</i>		
Material cost	233,644	209,835
Direct labour	4,290	4,986
	<u> </u>	<u> </u>

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

6 Administrative and general expenses

2010 AED'000	2009 AED'000
-----------------	-----------------

These include:

Staff related costs	46,579	46,580
Depreciation and write-off of property, plant and equipment (refer note 9)	14,305	14,107
Commercial vehicle expenses	21,684	18,814
Utilities	11,246	10,895
Rent and taxes	6,570	4,329
	<u> </u>	<u> </u>

7 Finance expense

2010 AED'000	2009 AED'000
-----------------	-----------------

Interest expense	561	673
Impairment loss on trade receivables	600	124
	<u> </u>	<u> </u>
	1,161	797
	<u> </u>	<u> </u>

8 Other income

2010 AED'000	2009 AED'000
-----------------	-----------------

This includes:

Sale of Scrap	732	454
Foreign exchange gains	403	273
Profit on sale of property, plant and equipment	399	901
	<u> </u>	<u> </u>

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

9 Property, plant and equipment

	Land & Buildings AED' 000	Plant & equipment AED' 000	Transport & distribution equipment AED' 000	Furniture, fixtures & office equipment AED' 000	Capital work in Progress AED' 000	Total AED' 000
Cost						
At 1 January 2009	39,602	64,189	76,483	4,570	16,739	201,583
Additions	-	530	3,095	300	19,188	23,113
Transfers	11,483	13,905	4,454	191	(30,033)	-
Disposals	-	-	(2,523)	(343)	-	(2,866)
Write off	-	-	-	-	(2,104)	(2,104)
At 31 December 2009	51,085	78,624	81,509	4,718	3,790	219,726
At 1 January 2010	51,085	78,624	81,509	4,718	3,790	219,726
Additions	511	1,199	5,645	429	9,031	16,815
Transfers	596	3,785	2,965	-	(7,346)	-
Disposals	-	(165)	(5,273)	(116)	-	(5,554)
At 31 December 2010	52,192	83,443	84,846	5,031	5,475	230,987
Depreciation						
At 1 January 2009	25,060	42,851	64,471	3,219	-	135,601
Charge for the year	1,468	4,075	5,887	573	-	12,003
On disposals	-	-	(2,149)	(337)	-	(2,486)
At 31 December 2009	26,528	46,926	68,209	3,455	-	145,118
At 1 January 2010	26,528	46,926	68,209	3,455	-	145,118
Charge for the year	1,897	5,278	6,492	638	-	14,305
On disposals	-	(165)	(4,850)	(110)	-	(5,125)
At 31 December 2010	28,425	52,039	69,851	3,983	-	154,298
Net book value						
At 31 December 2010	<u>23,768</u>	<u>31,404</u>	<u>14,995</u>	<u>1,047</u>	<u>5,475</u>	<u>76,689</u>
At 31 December 2009	<u>24,557</u>	<u>31,698</u>	<u>13,300</u>	<u>1,263</u>	<u>3,790</u>	<u>74,608</u>

- (i) The Government of Dubai had granted land to the Group for setting up the manufacturing facility that has been recorded at a nominal value.
- (ii) 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.
- (iii) The Company has a leased land in Dubai Industrial City. In the previous year, the Company was not certain to go ahead with the construction of new facility at Dubai Industrial City, accordingly all expenses incurred on the constructed related activities, recorded as capital work in progress was written off in the previous year. In the current year, the Company has decided to hand over the land back to Dubai Industrial City LLC and is currently in the process of formalising the cancelation of the lease. Dubai Industrial City LLC has demanded AED 1.9 million as early termination fees. The Company is disputing the early termination fees and is in the process of negotiating with Dubai Industrial City. However, provision of AED 1.9 million has been made in the consolidated financial statements.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

10 Available for sale investments

	2010 AED'000	2009 AED'000
Opening Balance	6,053	5,896
(Loss)/gain on fair valuation	(89)	157
	<u>5,964</u>	<u>6,053</u>
Closing Balance	<u>5,964</u>	<u>6,053</u>

Available for sale investments includes investment of AED 5.6 million in equity shares of Rawabi Emirates PJSC. 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.

Balance investment of AED 0.3 million represents investment in quoted shares in Dubai Financial Market PJSC and DP World. The investment has been valued at fair value at the balance sheet date.

11 Inventories

	2010 AED'000	2009 AED'000
Raw materials and packing materials	47,633	54,153
Work in process	2,338	1,928
Finished products	5,969	5,031
Trading stock	13,456	15,594
Consumable stores and spare parts	10,352	9,349
	<u>79,748</u>	<u>86,055</u>
Less: Provision for slow moving inventories	(3,791)	(3,791)
	<u>75,957</u>	<u>82,264</u>
Goods in transit	11,251	11,990
	<u>87,208</u>	<u>94,254</u>

12 Trade and other receivables

	2010 AED'000	2009 AED'000
Trade receivables	39,615	36,637
Less: Provision for bad and doubtful debts	(3,626)	(3,056)
	<u>35,989</u>	<u>33,581</u>
Advances, deposit and prepayments	7,290	5,834
	<u>43,279</u>	<u>39,415</u>

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

13 Cash in hand and at bank

	2010 AED'000	2009 AED'000
Cash in hand	546	424
Cash at bank	2,356	273
	<u>2,902</u>	<u>697</u>

14 Trade and other payables

	2010 AED'000	2009 AED'000
Trade payables	31,024	32,536
Employee terminal benefits	11,249	11,657
Other payables and accruals	17,285	17,357
Provision for taxation	542	271
	<u>60,100</u>	<u>61,821</u>

Movement in tax provision account is

	2010 AED'000	2009 AED'000
Opening balance	271	216
Tax paid	(144)	(219)
Current year tax provision	415	274
	<u>542</u>	<u>271</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 0.5 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. These transactions comprise purchase and sale of goods and transfer of funds. 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 are as follows:

	2010 AED'000	2009 AED'000
Sales to related parties	31,117	1,912
Purchases from related parties	<u>12,921</u>	<u>13,115</u>

The compensation to key management personnel is as follows:

Employee benefits (including remuneration)	<u>2,001</u>	<u>2,258</u>
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Due to related parties

	2010 AED'000	2009 AED'000
United Foods Company PSC	233	43
United Cans Company LLC	260	321
	<u>493</u>	<u>364</u>

16 Share capital

	2010 AED'000	2009 AED'00
Authorised share capital		
275,000 shares of AED 100 each	<u>27,500</u>	<u>25,000</u>
Issued subscribed and fully paid up		
200,102 shares of AED 100 each fully paid up	20,010	20,010
Shares issued for consideration other than cash- 74,898 shares of AED 100 each.	<u>7,490</u>	<u>4,990</u>
	<u>27,500</u>	<u>25,000</u>

In the previous year, the Board of Directors had proposed to issue bonus shares in the ratio of 1:10 (1 share for every 10 shares held) of AED 2,500,000 which have been issued in the current year. These were approved in the Annual General Meeting held on 21 April 2010.

Proposed dividend/bonus share

In accordance with the articles of association of the Company, the Board of Directors have proposed a dividend of AED 6,875,000 (2009: AED 7,500,000). Furthermore for the year 2010, the Board of Directors have proposed to issue bonus shares in the ratio of 1:10 (1 share for every 10 share held) of AED 2,750,000.

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 Group is allocated every year to a legal reserve. Such allocation shall cease when the reserve equals 50% of the issued share capital of the Group. During the year, AED 1.2 million (2009: Nil) has been transferred to the statutory reserve.

In accordance with the Oman Commercial Register Law No. 3/74, a minimum of 10% of the net profit of the Group 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.

General reserve

In accordance with the Group'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 Group. 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 Group 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

	2010 AED	2009 AED
Earnings per share	65	114
Proposed dividend per share	25	40

The earnings per share has been calculated by dividing the profit for the year 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

	2010 AED'000	2009 AED'000
Letters of credits	219	2,731
Bank guarantees	4,427	837
Capital commitments	-	1,748
	<u> </u>	<u> </u>

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 Segment reporting

The Company operates in a single reporting segment of dairy, juice, ice cream and various related food products. All the relevant information relating to this reporting/operating segment is disclosed in the statement of financial position, income statement, statement of comprehensive income and notes to the financial statements.

Additional information required by IFRS 8, Segment Reporting, is disclosed below:

a) Information about geographical segments

During the year ended 31 December 2010, revenue from customers located in the Company's country of domicile (UAE) was AED 205 million (year ended 31 December 2009: AED 179 million) and revenue from customers outside UAE (foreign customers) was AED 168 million (year ended 31 December 2009: AED 171 million)

22 Financial instruments

Financial assets of the Company's include available for sale investments, cash at bank and in hand and trade and other receivables. Financial liabilities of the Group include trade and other payables, bank borrowings 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:

	2010 AED'000	2009 AED'000
Trade receivables	35,989	33,581
Other receivables (excluding prepayments)	4,344	2,768
Bank balances	2,356	273
	<u> </u>	<u> </u>
	<u>42,689</u>	<u>36,622</u>

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

22 Financial instruments (continued)

(a) Credit risk (continued)

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

	Carrying amount	
	2010 AED'000	2009 AED'000
UAE	25,350	22,707
Oman	9,757	9,754
Other regions	882	1,120
	<u>33,989</u>	<u>33,581</u>

Impairment losses

The aging of trade receivables at the reporting date was:

	Gross 2010 AED'000	Impairment 2010 AED'000	Gross 2009 AED'000	Impairment 2009 AED'000
0-30 days due from invoice date	12,961	345	12,993	349
31- 60 days from invoice date	10,088	252	8,979	217
61-90 days from invoice date	7,463	609	7,167	618
91-120 days from invoice date	4,064	405	3,630	844
Above 120 days	5,039	2,015	3,868	1,028
	<u>39,615</u>	<u>3,626</u>	<u>36,637</u>	<u>3,056</u>

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

	2010 AED'000	2009 AED'000
Balance at 1 January	3,056	3,165
Impairment loss recognised	600	124
Impairment allowance written off	(30)	(233)
Balance at 31 December	<u>3,626</u>	<u>3,056</u>

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

22 Financial instruments (continued)

(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 2010

	Carrying amount AED'000	Contractual cash flows AED'000	6 months or less AED '000	More than 6 months AED'000
Non-derivative financial liabilities				
Due to related parties	493	493	493	-
Trade and other payables	47,421	47,421	47,421	-
Bank Overdraft	4,588	4,588	4,588	-
	<u>52,502</u>	<u>52,502</u>	<u>52,502</u>	<u>-</u>

At 31 December 2009

	Carrying amount AED'000	Contractual cash flows AED'000	6 months or less AED'000	More than 6 months AED'000
Non-derivative financial liabilities				
Due to related parties	364	364	364	-
Trade and other payables	50,164	50,164	50,164	-
Bank Overdraft	11,647	11,647	11,647	-
	<u>62,175</u>	<u>62,175</u>	<u>62,175</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:

	2010 AED'000	2009 AED'000
Trade and other payable	<u>(36)</u>	<u>(37)</u>

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

22 Financial instruments (continued)

(c) Currency risk (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010 AED	2009 AED	2010 AED	2009 AED
Euro 1	<u>4.878</u>	<u>5.272</u>	<u>4.993</u>	<u>5.391</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 2009.

Effect in AED '000	Profit or (loss)
2010	
Euro	4
	=
2009	
Euro	4
	=

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	
	2010 AED'000	2009 AED'000
Fixed rate instruments		
Bank overdrafts repayable on demand	<u>-</u>	<u>149</u>
Variable rate instruments		
Bank overdrafts repayable on demand	<u>4,588</u>	<u>11,498</u>

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

22 Financial instruments (continued)

(d) Interest risk (continued)

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 2009.

	Profit or loss		Equity	
	100bp increase AED'000	100bp decrease AED'000	100bp increase AED'000	100bp decrease AED'000
31 December 2010				
Variable rate instruments	<u>46</u>	<u>(46)</u>	<u>-</u>	<u>-</u>
31 December 2009				
Variable rate instruments	<u>115</u>	<u>(115)</u>	<u>-</u>	<u>-</u>

(e) Equity price risk

Sensitivity analysis

The following table demonstrates the sensitivity of the Group'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 profit or loss AED'000	Effect on equity AED'000
31 December 2010		
Effect of changes in quoted equity portfolio of the Group	<u>-</u>	<u>39</u>
31 December 2009		
Effect of changes in quoted equity portfolio of the Group	<u>-</u>	<u>48</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.

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

22 Financial instruments (continued)

(e) Equity price risk (continued)

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 recognised directly in equity.

(f) Fair value

Fair values versus carrying amounts

The fair value of the Group's financial assets and liabilities approximates their carrying values at the balance sheet date.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2010

<i>In thousands of AED</i>	Level 1	Level 2	Level 3	Total
Available for sale investments	387	-	5,577	5,964
	<u>387</u>	<u>-</u>	<u>5,577</u>	<u>5,964</u>

2009

<i>In thousands of AED</i>	Level 1	Level 2	Level 3	Total
Available for sale investments	476	-	5,577	6,053
	<u>476</u>	<u>-</u>	<u>5,577</u>	<u>6,053</u>

United Kaipara Dairies Company (PSC) and its subsidiary

Notes (continued)

23 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 realisable value for such product. Accordingly, provision for impairment is made where the net realisable 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.

(c) Estimating useful lives of property, plant and equipment and investment property

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property and equipment is based on collective assessment of industry practice, internal technical evaluation and on the historical experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.