
PROSPECTUS

SAUDIA DAIRY & FOODSTUFF COMPANY ("SADAFCO")



Incorporated in the Kingdom of Saudi Arabia as a Joint Stock Company

Offer of 1,950,000 ordinary shares representing
30% of SADAFCO's issued share capital
through an Initial Public Offer
at an Offer Price of SR 260 per Offer Share

Financial Advisor and Lead Manager
The National Commercial Bank



This Prospectus is dated April 25, 2005

This Prospectus includes information given in compliance with the Listing Rules of the Capital Market Authority of the Kingdom of Saudi Arabia (the "Authority"). The directors whose names appear on page vi, collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading. The Authority and the Saudi Stock Exchange do not take any responsibility for the contents of this prospectus, do not make any representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document.

Initial Public Offer of 1,950,000 ordinary shares of SADAFCO representing 30% of SADAFCO's 6,500,000 fully paid ordinary shares ("Shares") at an Offer Price of SR 260 per Offer Share.

This Prospectus (the "**Prospectus**") gives information relating to Saudia Dairy and Foodstuff Company ("**SADAFCO**" or the "**Company**") and the Offer Shares. In applying for Offer Shares, investors will be treated as applying on the basis of the information contained in this Prospectus, copies of which are available for collection from the Company and the Lead Manager, as defined below.

The Initial Public Offer (the "**Offer**") is of up to 1,950,000 ordinary shares (the "**Offer Shares**" and each an "**Offer Share**") with a nominal value of SR 50 each, all of which are fully paid, and representing 30 % of the total issued share capital of SADAFCO. The Offer is directed solely at, and may only be accepted by, Saudi Arabian nationals (the "**Individual Applicants**"). The Offer is also being made available to certain select mutual funds which have been approached by the Lead Manager as described in more detail in Section 2 ("**Qualified Mutual Funds**"). The Offer Shares are being sold by those persons named as selling shareholders in page *vii* of this Prospectus (the "**Selling Shareholders**"). Potential investors should note that, assuming successful completion of the Offer, UIC will continue to own 40.11% of the Company's share capital. Accordingly UIC will be able to continue to exert significant influence over the affairs of the Company. The entire proceeds from the Offer will be paid to the Selling Shareholders (net of transaction costs). In addition, the Selling Shareholders will be responsible for any costs associated with the Offer. Following the Offer the existing Shareholders who continue to hold Shares will be subject to "lock-in" obligations preventing them from selling Shares on the Exchange, until six months after the date of admission of the Offer (the "**Lock-In Period**"). Any proposed sale of Shares by founding and existing Shareholders after the Lock-In Period has elapsed must first be approved by the Capital Market Authority ("**Authority**").

The Board of Directors of the Company approved the Offer in a resolution dated January 13, 2005.

Financial Advisor, Lead Manager and Underwriter



Receiving Banks



Commencement of Offer

The Offer will commence on April 25, 2005 and will remain open for a period of 10 days, with the closing date to be end of working day May 4, 2005 (the "**Offer Period**").

Application

Individual Applicants must apply for at least 10 Offer Shares (the "**Minimum Application**"). In excess of the Minimum Application, Individual Applicants must apply for Offer Shares in additional units of 10 Offer Shares. Individual Applicants may not apply for more than 1,000 Offer Shares (the "**Maximum Application**")

Division of Allocation between Individual Applicants and Qualified Mutual Funds

It is intended that 90 percent of the Offer Shares (1,755,000 Offer Shares) will be allocated to Individual Applicants and the remaining 10 percent of the Offer Shares (195,000 Offer Shares) will be allocated to Qualified Mutual Funds.

Allocation

All Individual Applicants who properly complete the application process (as explained in Section 2 of this Prospectus, and the Application Form accompanying this Prospectus), will be allocated a minimum of ten (10) Offer Shares. The remainder of the Offer Shares, if any, will be allocated among Individual Applicants on a pro rata basis. The excess funds pertaining to unallocated shares will be returned to the accounts of Individual Applicants without withholding any fees or deducting any amounts on the behalf of the Receiving Banks no later than May 9, 2005. The Company does not guarantee the minimum allocation of 10 Offer Shares in the event that the number of Individual Applicants exceeds 175,500 Applicants. In that case, the Offer Shares will be allocated equally between all Individual Applicants. If the number of Individual Applicants exceeds the number of Offer Shares, the allocation will be left to the discretion of the Authority.

The allocation of Offer Shares to Qualified Mutual Funds is set out in Section 2 of this Prospectus, which contains further information on the allocation policy.

Application has been made to the Authority for admission to the Official List and an application will be made to the Stock Exchange ("**Exchange**") for trading of the Offer Shares immediately after completion of the Offer.

The Company has one class of Shares and every Share carries the same voting rights. Offer Shares have the same rights as all other issued ordinary shares of the Company and will be eligible for any dividend declared in respect of the Company's 2004-05 fiscal year and subsequent fiscal years.

The Offer Shares are being sold on behalf of the Selling Shareholders through branches of The National Commercial Bank (the "**Lead Manager**"), as well as branches of the selected Receiving Banks (the "**Receiving Banks**"), whose names are listed in page *vi* of this Prospectus, all located in the Kingdom of Saudi Arabia.

The attention of all applicants is drawn to the "Risk Factors" set out in Section 1 of this Prospectus for a discussion of certain factors to be considered in connection with an investment in the Offer Shares.

IMPORTANT NOTICE

The Offer is only being made to, and is only capable of acceptance by, Saudi Arabian nationals and Qualified Mutual Funds as described in Section 2 of this Prospectus.

No action has been taken to register either this Prospectus or any of the Offer Shares in any jurisdiction outside the Kingdom of Saudi Arabia, and it is explicitly prohibited to use this Prospectus or make this Offer in any such country or jurisdiction. The Selling Shareholders, the Company and the Lead Manager require persons into whose possession this Prospectus comes to inform themselves of and observe all such restrictions. None of the Selling Shareholders, or the Company or the Lead Manager accepts any legal responsibility for any violation of any such restrictions by any person, whether or not a prospective purchaser of Offer Shares.

No person is or has been authorized to give any information or to make any representations other than those contained herein in connection with the Offer and, if given or made, such information or representations must not be relied upon as having been authorized by the Selling Shareholders, the Company, or any of their respective legal or accounting advisers or the Lead Manager. Each prospective investor should conduct their own assessment of the Offer and consult with their own independent professional advisors.

Neither the delivery of this Prospectus nor any sale or issue made hereunder shall, under any circumstances, constitute a recommendation to purchase Offer Shares or create any implication that there has been no change in the affairs of the Company or any of its subsidiaries since the date hereof or that the information contained herein is correct as of any time subsequent to its date. The content of this Prospectus may, however, still be subject to change until the completion of the Offer. If required, these changes will be made through an amendment to this Prospectus.

The Lead Manager is acting for the Company and the Selling Shareholders in connection with the matters described in this document and is not acting for any other person and will not be responsible to any other person for providing the protections afforded to customers of the Lead Manager or for advising any other person in connection with the matters described in this document.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Company prepares its financial statements and the notes thereto in accordance with Saudi Arabian Accounting Standards issued by the Saudi Organisation for Certified Public Accountants and with the relevant requirements of Saudi Arabian law.

KPMG Al Fozan & Bannaga have audited the interim consolidated financial statements for the 6-month period ended as of September 30, 2004.

The Company has, in this Prospectus, stated, analysed and discussed key financial data using extracts from the historical audited financial statements for the Company and its Subsidiaries.

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are subject to risks and uncertainties. All statements other than statements of historical or current fact included in this Prospectus are forward-looking statements. Forward-looking statements express the current expectations and projections of the management of the Company relating to the Company's condition, results of operations, plans, objectives, future performance and business. Prospective investors can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate", "estimate", "expect", "project", "plan", "intend", "believe", "prospective" and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events.

These forward-looking statements are based on assumptions that the management of the Company have made in light of their experience in the industry in which they operate, as well as their perceptions of historical trends, current conditions, expected future developments and other factors which they believe are appropriate under the circumstances. As prospective investors read and consider this Prospectus, prospective investors should understand that these statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond the control of the management of the Company) and assumptions. Although the management of the Company believes that these forward-looking statements are based on reasonable assumptions, prospective investors should be aware that many factors could affect the Company's actual financial condition or results of operations and cause actual results to differ materially from those in the forward-looking statements. These factors include, among other things, those discussed under the heading "Risk Factors" in this Prospectus.

Because of these factors, the Company cautions that prospective investors should not place undue reliance on any forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise from time to time, and it is impossible to predict these events or how they may affect the Company. Except as required by law, the management of the Company has no duty to, and do not intend to, update or revise the forward-looking statements in this Prospectus after the date of this Prospectus.

Board of Directors

Sheikh Hamad Sabah Al Ahmed Al Sabah	Chairman
Mr. Faisal Hamad Al Ayyar	Member
Mr. Ahmed Mohammed Hamid Al Marzouki	Managing Director, Company Secretary and Authorised Representative
Mr. Essa Khalid Al Essa Al Saleh	Member
Mr. Abdullah Yacoob Bishara	Member
Mr. Mohammed Ahmed Saeed Basamh	Member
Mr. Faick Hussein Mohammed Al-Saleh	Member

The business address of the Directors is care of :

Saudia Dairy & Foodstuff Company
P.O. Box 5043
Jeddah 21422
Kingdom of Saudi Arabia

Advisory Parties

Financial Advisor, Lead Manager and Underwriter

The National Commercial Bank
P.O. Box 3555
Jeddah 21481
The Kingdom of Saudi Arabia

Receiving Banks

The National Commercial Bank
P.O. Box 3555, Jeddah 21481

Al-Rajhi Banking & Investment Corp.
P.O Box 28, Riyadh 11411

Banque Saudi Fransi
P.O. Box 56006, Riyadh 11554

SAMBA Financial Group
P.O. Box 833, Riyadh 11421

Transaction Legal Counsel

Clifford Chance LLP
Floor 18, World Trade Centre
P. O. Box 9380
Dubai
United Arab Emirates

The Law Firm of Yousef &
Mohammed Al-Jadaan
Salah Aldeen Al-Ayoubi St.
Al-Malaz, Riyadh
The Kingdom of Saudi Arabia
P.O.Box 3515, Riyadh 11481

Accountants

KPMG Al Fozan & Bannaga
Certified Public Accountants
Jeddah International Business Centre
P.O. Box 6659
Jeddah 21452
The Kingdom of Saudi Arabia

Summary Terms of the Offer

Offer Shares 1,950,000 fully paid ordinary shares with a nominal value of SR 50 each, representing 30% of the Company's total issued share capital. All Offer Shares have the same rights as all other issued ordinary shares of the Company and rank equally in relation to any dividend declared for the 2004-2005 financial year and subsequent financial years. No resolution is required to authorise the transfer of the Offer Shares. Further information on the rights attaching to the Offer Shares is set out in Section 9 (Summary of By-Laws). After the Closing Date and the listing of the Offer Shares on the Exchange, the Offer Shares will be freely tradable.

Offer Price The Offer Price per Offer Share is SR 260, payable in full at the time of application.

Selling Shareholders Details relating to the Selling Shareholders are as follows:

Selling Shareholder Name	Existing Number of Shares	Current % Share Holding	Number of Shares Being Sold in Offer	Number of Shares After Sale	% of Total After Sale
United Industries Company	3,055,000	47.00%	447,980	2,607,020	40.11%
KIPCO	65,000	1.00%	64,800 *	200	0.00%
United Gulf Bank	846,225	13.02%	846,025 *	200	0.00%
Faick Hussein Mohd. Al Saleh	468,925	7.21%	468,725 *	200	0.00%
Sadeqah Mohd. Saleh Sheikh	121,550	1.87%	50,000	71,550	1.10%
Abdul Wahab Mohd. Saleh Sheikh	121,550	1.87%	25,000	96,550	1.49%
Al Besham Group Company	67,938	1.05%	6,970	60,968	0.94%
Osama Abid Mohd. Saleh Sheikh	58,500	0.90%	11,000	47,500	0.73%
Business Development Group Co.	37,500	0.58%	7,500	30,000	0.46%
Samir Abid Mohd. Saleh Sheikh	23,400	0.36%	11,000	12,400	0.19%
Essam Abid Mohd. Saleh Sheikh	23,400	0.36%	11,000	12,400	0.19%
Total From Selling Shareholders	4,888,988	75.22%	1,950,000	2,938,988	45.22%

* 200 shares (equivalent to 0.00004% of total shares following successful completion of the Offer) are being retained by Board members as required by Saudi Arabian Law.

Lead Manager The Selling Shareholders and the Company have appointed The National Commercial Bank as Lead Manager to market, distribute and place the Offer Shares with Saudi Arabian individual investors and Qualified Mutual funds. The Lead Manager is also the sole underwriter of the Offer. In addition, The National Commercial Bank has also acted as Financial Advisor to the Offer.

Eligible Investors The Offer is only capable of acceptance by Saudi Arabian nationals and certain specified mutual funds approached directly by the Lead Manager (the Qualified Mutual Funds are described in more detail in Section 2).

Allocations	It is intended that 90% of the Offer Shares (1,755,000) will be allocated to Individual Applicants, with the remaining 10% of the Offer Shares (195,000) being allocated to Qualified Mutual Funds. Further information on the allocation policy is set out in Section 2.
Offer Period	The Offer will commence on April 25, 2005 and will remain open for a period of 10 days, with the Closing Date to be end of working day May 4, 2005.
Voting Rights	Each Share confers on the holder the right to cast one vote on shareholder resolutions.
Listing of Shares	Application has been made to the Authority for admission to the Official List and an application will be made to the Exchange for trading of the Offer Shares immediately after completion of the Offer. Trading is expected to commence once all related regulatory requirements are satisfied.
Lock-in Period	Following the Offer, the existing and founding Shareholders who continue to hold Shares will be subject to "lock-in" obligations preventing them from selling Shares on the Exchange, until six months after the date of admission of the Offer Shares. Any proposed sale of Shares by such Shareholders subsequent to the Lock-In Period elapsing must first be approved by the Authority.

OFFER TIMETABLE

The dates set out below and elsewhere in this Prospectus in relation to the Offer dates, are indicative only of the expected timing of certain key events relating to the Offer, and are subject to change. The actual dates will be announced through advertisement in the local newspapers.

Event	Date	Description
Commencement of Offer Period	Monday, April 25, 2005	Share Application Forms to be filed and submitted by applicants for the Offer Shares with the Lead Manager or any of the Receiving Banks, together with the corresponding payment in accordance with instructions on the Share Application Form, at the date of filing such Share Application Forms.
Closing of Offer Period	Wednesday, May 4, 2005	
Allocation of Offer Shares	May 8, 2005	The Lead Manager and the Receiving Banks will send notification to all new shareholders of the total amount of Offer Shares allocated to them, as well as returning any application funds in respect of Offer Shares not allocated to the relevant applicant.
Returning Excess Funds	May 9, 2005	
Estimated commencement of trading in the Offer Shares on the Exchange	Trading of the Offer Shares is expected to commence once all related regulatory requirements are satisfied.	Submission of all required documents and records of the Offer to the Exchange to complete the shareholders' registry in anticipation of trading in the Offer Shares.

Trading in the Offer Shares on the Exchange is effected solely through electronic book entry into the Exchange's Share Registry, with buying and selling of shares completed through the Exchange's allocated numbering system. No trading in the Offer Shares on the Exchange is effected through physical share certificates. Shareholders may however request physical share certificates to be issued to them as evidence of title only. However, such share certificates cannot be used for purposes of trading in the Offer Shares on the Exchange.

Business Overview

Established in 1976, SADAFCO is a leading long-life dairy and foodstuff company based in Saudi Arabia having operations across the Middle East. The Company is a market leader in Saudi Arabia in UHT milk and tomato paste (by reference to sales revenue) and ice cream (by volume). SADAFCO markets its core products under its flagship brand 'SAUDIA', associated with the name 'SADAFCO'.

SADAFCO's principal manufacturing facilities are located in Jeddah and Dammam, Saudi Arabia. These locations provide proximity to markets and key ports for importation of raw materials.

SADAFCO has an established sales and distribution network providing the Company with wide sales penetration throughout Saudi Arabia. In addition, the Company has established distribution outlets in UAE, Qatar, Bahrain and Jordan through subsidiaries. Certain international markets are accessed through external distributors/agents in Kuwait, Sudan, Oman, Yemen and Jordan.

SADAFCO is committed to ensuring high standards of quality in its production processes and has received International Standards Organisation (ISO) certification in relation to its Dammam and Jeddah production plants. In addition, SADAFCO has received commendations from the Asia Bottled Water Association, an internationally recognised independent body which establishes standards for bottled water producers.

The Company's product portfolio comprises approximately 220 items across a range of products. The Company's key products are highlighted in the table below:

SADAFCO's Key Product Portfolio

KEY PRODUCTS AND BRANDS					
Milk	Dairy Products	Ice Cream	Foodstuff	Juices	Value Added Beverages
UHT Milk (Saudia)	Cheese (Saudia)	Ice Cream (Baboo, Saudia)	Tomato Paste (Saudia, Basateen)	Juices (Saudia, Chillz, Bonjus, Majestique)	Malt Beverage (Fayrouz, Birell)
Flavoured Milk (Saudia, Siammers)	Yoghurt (Ayran)	Premium Ice Cream (Mövenpick)	Snacks (Crispy)	Bottled Water (Saudia)	Iced Tea (Chillz)
Value Added Milk (Livewell, Saudia Sehati)	Desserts (Saudia)		Hommos & Mutabal (Saudia)		Energy Drinks (GR8)

Summary Financial Performance and Indicators

The summary financial information of the Company and its Subsidiaries (the "Group") set out below should be read in conjunction with the Section 8 of this Prospectus (Management's Discussion and Analysis of Financial Conditions and Results of Operations) and the Group's audited financial statements and related notes included in section 11 of this Prospectus.

The summary financial information set out below are based on the annual financial statements of the Group audited by KPMG Al Fozan & Bannaga for the three years ended March 31, 2002, 2003 and 2004.

The financial information as on and for the six month period ended September 30, 2004 has been derived from the audited interim financial statements of the Group audited by KPMG Al Fozan & Bannaga. These financial statements include, in the opinion of the management, all normal recurring adjustments necessary to present fairly the data for such periods.

The historical financial information presented in the table is a summary only and is not necessarily indicative of future results.

Summary of Consolidated Financial Information of SADAFCO and its Subsidiaries

<i>All figures in SR '000</i>	<i>Half Year Ended September 30</i>		<i>Year ended March 31</i>		
	<i>(Un-audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>		
	2003	2004	2002	2003	2004
<i>Statement of Operations Data</i>					
Net Sales	415,880	426,792	775,297	795,320	820,749
Gross Profit	178,022	178,363	284,790	316,128	351,381
Selling and Distribution	(97,166)	(106,758)	(171,125)	(188,857)	(201,395)
General and Administration	(25,907)	(26,549)	(50,782)	(49,354)	(53,717)
Operating Income	54,949	45,056	62,883	77,917	96,269
Other Income	1,045	3,453	5,204	8,918	16,588
Financial Charges - Net	(1,738)	(2,869)	(7,191)	(6,275)	(4,819)
Provision for Zakat	(3,157)	(3,502)	(5,000)	(5,947)	(6,314)
Minority Interests	191	46	805	24	28
Net Income	51,290	42,184	56,701	74,637	101,752
Earnings per Share (SR)	7.89	6.49	8.70	11.50	15.70
Dividend declared per Share (SR)			9.20	10.80	12.30
<i>Balance Sheet Data</i>					
Current Assets	437,122	439,402	362,478	439,463	437,759
Property, Plant & Equipment	325,747	364,125	347,549	331,464	347,757
Other non-Current Assets	60,729	59,105	139,452	56,044	59,148
Total Assets	823,598	862,632	849,479	826,971	844,664
Current Liabilities	252,173	275,605	265,326	238,427	221,525
Long term debt	2,817	1,815	11,903	2,290	2,181
Employees' End of Service Benefits	67,120	72,620	58,822	64,271	70,015
Minority Interest	6,641	6,712	8,847	7,261	6,824
Shareholders' Equity	494,847	505,880	504,581	514,722	544,119
Total Liabilities & Equity	823,598	862,632	849,479	826,971	844,664

Source: Company financial statements

* Dividends declared are paid in the following financial year

Definition of Abbreviations

Defined or capitalized terms not otherwise defined have the meaning set out in Section 12 (Definition of Abbreviations) of this Prospectus.

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1. RISK FACTORS

Before deciding whether to purchase Offer Shares, prospective investors should carefully consider the risk factors described below which could materially and adversely affect the business, financial position and operations of the Company or its Subsidiaries. Additional risks and uncertainties not presently known to the Company or its Subsidiaries or that the Company or its Subsidiaries currently deem immaterial, may also have such a material and adverse effect in the future.

Risks Related to the Group

Fluctuation in the Group's operations

The ability of the Group to increase sales and profitability is contingent on several factors, many of which are outside the Group's control. The volatility from results of operations during the year and from year to year (on account of movement in key raw material prices, increased competition and market acceptance of key products) makes it difficult to predict future results.

Movement in key raw material prices

The Company procures its requirement of key raw materials (SMP, AMF and tomato paste concentrate) on the basis of "spot" arrangements. The prices of many of these raw materials are highly volatile and cyclical, and for most products used by the Company are currently increasing. If prices of key raw materials continue to rise, and if the Company is unable to recover the increase through other cost saving measures or an increase in the selling price of its products, results of operations would be adversely impacted.

Contingent liabilities, guarantees and capital commitments

As of September 30, 2004, the Company had outstanding commitments for future capital expenditures and investments amounting to SR 6.8 million. In addition, the Company has a contingent liability of SR 46.8 million in respect of the guarantees issued by the Company's bankers on behalf of its Subsidiaries and Associates. The Company has obtained the final Zakat certificate up to the financial year ended March 31, 2002 by providing a bank guarantee for SR 5.6 million representing Zakat on a disallowed item under appeal to the DZIT. In the event that the guarantee being called, the Company's financial position may be adversely impacted. The Company has not provided for SR 3.3 million of the amount under appeal, as management believes that the Company will receive favorable rulings in relation to the matters under dispute. An adverse ruling in relation to Zakat may impact the Company's financial position. It is anticipated that the Zakat position will be resolved in the current financial year.

As of September 30, 2004, the Company also had outstanding receivables of SR 91.6 million as the last instalment due from Biomatrix Investment Holding Company Limited in relation to the sale of the majority of SADAFCO's stake in each of Egyptian Dairy and Foodstuff Company, and F&B Venture Holding SAL in 2001 and certain other assets. This receivable is covered by an irrevocable bank guarantee from United Gulf Bank. In the event that this debt is not collected, it will have a material adverse effect on the Company's financial performance. This guarantee and the related transaction is discussed in greater detail in Sections 6 and 10 below.

Retention of key managerial personnel

The success of the Company and its growth strategy is dependent upon the continued services of the existing management and key personnel at various levels. If the Company were to lose the services of its key managerial personnel, it could have a material adverse impact on the financial condition and results of operations.

Regulatory Risks

The dairy and foodstuff industries in each of the markets in which the Group operates are subject to regulation. In SADAFCO's primary market, Saudi Arabia, these regulations may pertain to:

- Licensing requirements (including Ministry of Commerce and Industry licensing);
- Norms and standards prescribed by the Saudi Arabian Standards Organization ("SASO");
- Norms and standards prescribed for import regulatory conditions in other countries;
- Import duties on key raw materials and finished products;
- Sales restrictions;
- Health and hygiene obligations; and
- Changes in the applicable zakat and taxation regime in which the Group operates.

Any change in any of the above requirements or any other regulatory requirements may have an adverse effect on the Company or its Subsidiaries.

Reliance on brands

The Company depends to a varying extent on the goodwill associated with its brands. While the Company has registered trade marks to protect a number of its brands, the inability to register protection for any brands/products could hinder the Company's future business.

Offshore entities

As set out in this Prospectus, the Company has shareholdings in various offshore entities. It is possible that the Company could be required to commit unforeseen expenditure to fund obligations in respect of such companies.

Termination of third party contracts

The Company is reliant on certain third parties in relation to its business. In the event that any of these third parties terminated their agreements with the Company or failed to renew such contracts when due for renewal or to perform their obligations, this may have a material adverse impact on the Company and its business.

Risks Related to the Industry

Market acceptance of existing and new products

The Company's future performance is contingent upon its ability to maintain and/or expand market shares in its various product areas. Potential delays in the launch of new products and lower than anticipated acceptance of existing or new products may adversely impact the results of operations of the Company.

Competition from domestic and international majors

The Group faces increased competition from both domestic and international competitors. Increased competition and price pressures could have an adverse effect on the Company and its Subsidiaries and their financial performance.

The expansion of the domestic dairies has resulted in increased supply of fresh milk, especially during the winter months. Fresh dairy manufacturers are using their surplus milk to manufacture and sell UHT products. This has placed fresh dairy manufacturers in direct competition with the recombined dairies, including the Company. In the event of continued increase in supply of fresh milk and/ or stagnation in the other value-added products, the profitability of the Company might be adversely impacted.

In addition, in the event that demand for any of the Company's products changes, this would materially impact the business of the Company.

Changes in consumer preferences

Changes in consumer tastes and preferences could adversely impact the sales of the Company. For instance, a change in consumer perception in favour of fresh products over recombined products could necessitate reformulation of the products and marketing strategies of the Company.

Fluctuation of US dollar against major currencies

The Saudi Arabian Riyal is pegged to the US dollar. Any adverse movement in the value of the US dollar vis-à-vis other currencies would have an adverse impact on the Company's operations. For instance, the depreciation of the US dollar against major currencies since 2003 has impacted the cost of key imported raw materials.

Potential volatility of stock price

Prior to the Offer, there has been no public market for the Offer Shares and there can be no assurance that an active trading market for the Offer Shares will develop or, if developed, that such market will be maintained after listing. If an active trading market is not developed or maintained, the liquidity and trading prices of the Offer Shares could be adversely affected. Investors in the Offer may not be able to resell their Offer Shares at or above the Offer Price due to a number of factors, including variations in actual or anticipated operating results, changes in or failure to meet earnings estimates or forecasts, market conditions in the industry, regulatory actions and general economic conditions. Broad market and industry fluctuations may adversely affect the trading price of the Shares on the Exchange, regardless of the actual operating performance of the Company or any of its Subsidiaries.

Dividend distribution

The Company may not always pay dividends. Any decision to pay cash dividends to shareholders will be at the discretion and upon the recommendation of the Board, after taking into account various factors then existing, including the Group's financial condition.

Risks Related to the Region

Economic risk and dependence on oil revenues

The economies of the region are driven by revenue from oil exports, and are therefore exposed to volatility in oil prices. While the Saudi Arabian Government is pursuing its policy of diversification to enhance the contribution of non-oil sectors to the GDP, oil-based income will continue to play a major role in the economy. Consequently, a sustained down-turn in oil prices would have a negative impact on the overall economy, with consequent effect on all sectors including those in which the Company and its Subsidiaries operate.

WTO Membership

Saudi Arabia is currently negotiating membership of the World Trade Organisation ("WTO"). It is possible that Saudi Arabia's membership of the WTO and any agreement reached in relation to such memberships could impact on the future success of the Company and its Subsidiaries.

English translation of the official Arabic prospectus

2. THE OFFER

Public Offer

The Offer is an offer of 1,950,000 Offer Shares being sold by the Selling Shareholders named as such in page *vii* of this Prospectus. The Selling Shareholders will receive the entire amount of the sale proceeds (net of transaction costs). The Selling Shareholders will be responsible for any costs associated with the Offer. The Offer Shares are being offered only to Saudi Arabian nationals and certain specified mutual funds as described below.

Application has been made to the Authority for admission to the Official List and an application will be made to the Exchange for trading of the Offer Shares after the completion of the Offer.

The Offer will commence on April 25, 2005 and will end on May 4, 2005. During the Offer Period, prospective purchasers may only apply to purchase Offer Shares by properly completing all procedures required in the Share Application Form, which will be made available by the Lead Manager. Any application to purchase Offer Shares that is conducted without full compliance with the requirements indicated in the Share Application Form may be rejected without any right to damages or any other recourse. Each applicant must pay the full amount of the Offer Shares applied for (number of Offer Shares applied for multiplied by SR 260 per Offer Share) upon submission of a Share Application Form. Such payment must be made to branches of the Lead Manager or any of the Receiving Banks (listed on page *vi* of this Prospectus) by instructing a debit of the applicant's account with the Lead Manager or any of the Receiving Banks. Once submitted, Share Application Forms may not be withdrawn or modified.

It is expected that the allocation of Offer Shares and returning excess funds, if available, will take place no later than May 9, 2005.

Notifications will be sent by the Lead Manager and the Receiving Banks to all Individual Applicants who have duly completed and submitted their Share Application Forms and deposited the corresponding funds with the Lead Manager and the Receiving Banks during the Offer Period providing them with information with regard to their allocations and the excess funds that will subsequently be returned to them. All excess funds, if available, will be deposited in the Individual Applicants' accounts at the respective Receiving Banks in full, without deducting any fees.

Trading of the Shares will be effected on an electronic basis, through the Exchange's Share Registry. Trading in the Offer Shares on the Exchange is expected to commence upon the satisfactory completion of all relevant regulatory requirements.

Qualified Mutual Funds must also apply for Offer Shares by submission of Share Application Forms and in accordance with the instructions given to them by the Lead Manager.

Pricing of the Offer

The Offer Price is fixed at SR 260 per Offer Share. Prior to the Offer, there has been no public market for the Offer Shares. The Lead Manager determined the Offer Price for the Offer Shares through a Book Building procedure in agreement with the Selling Shareholders.

Among the factors considered in determining the final Offer Price were, in addition to prevailing market conditions, certain financial information of the Company, the history of and prospects for, the Company and its Subsidiaries and the industries in which they compete, demand for similar

shares from comparable companies, an evaluation of the Company's historical consolidated performance, and the prospects for and timing of future revenues of the Company, and the consideration of the above factors in relation to the market value and various valuation measures of other companies engaged in activities similar to those of the Company.

Eligible Investors

The Offer is only capable of acceptance by Saudi Arabian nationals and certain specified mutual funds approached directly by the Lead Manager (the Qualified Mutual Funds). The Qualified Mutual Funds comprise selected mutual funds which invest in the Saudi Arabian Stock Exchange and which are managed by Saudi Arabian financial institutions.

Division of Allocation between Individual Applicants and Qualified Mutual Funds

It is intended that 90 percent of the Offer Shares (1,755,000 Offer Shares) will be allocated to Individual Applicants and the remaining 10 percent of the Offer Shares (195,000 Offer Shares) will be allocated to Qualified Mutual Funds.

Allocation

All Individual Applicants who properly complete the application process (as explained below in the Terms and Conditions of the Offer, and the Application Form accompanying this Prospectus), will be allocated a minimum of 10 Offer Shares. The remainder of the Offer Shares, if any, will be allocated among Individual Applicants on a pro rata basis. The excess funds pertaining to unallocated shares will be returned to the accounts of Individual Applicants without withholding any fees or deducting any amounts on the behalf of the Receiving Banks no later than May 9, 2005. The Company does not guarantee the minimum allocation of 10 Offer Shares in the event that the number of Individual Applicants exceeds 175,500 Applicants. In that case, the Offer Shares will be allocated equally between all Individual Applicants. If the number of Individual Applicants exceeds the number of Offer Shares, the allocation will be left to the discretion of the Authority.

Qualified Mutual Funds will be allocated Offer Shares at the discretion of the Lead Manager acting in conjunction with the Company and Selling Shareholders.

Terms & Conditions of Offer

Applicants must complete Share Application Forms which must be submitted along with (i) an original and a copy of the applicant's Civil Affairs (national) ID Card or Family Card and (ii) the full amount of the payment required in respect of the Offer Shares applied for.

An individual may submit an Application Form on behalf of his direct relatives (parents and children) in which case he shall place his name and signature on the Share Application Form and attach the original and copy of a valid power of attorney authorizing him to sign such Application Form on his behalf. The power of attorney should be issued by a notary public for individuals residing in Saudi Arabia or by a Saudi Embassy or Consulate for Saudi Arabian individuals residing outside Saudi Arabia. Authorised personnel on behalf of the Receiving Bank shall compare the copies of the relevant powers of attorney to the originals and return the originals to the applicants.

An individual in whose name the Family Card is issued (the principal applicant) may submit an application on his own behalf as well on behalf of his spouse and children (mentioned on his

Family Card). One Application Form may be submitted per family by the individual submitting the Application Form, as long as each person is applying for the same number of Offer Shares (in the event that different numbers of Offer Shares are being applied for, separate Application Forms must be submitted). In such case (1) all shares allocated in relation to such Application shall be registered in the name of the principal applicant, (2) all surplus funds deposited in respect of the Offer Shares not allocated shall be returned to the principal applicant and (3) the principal applicant shall receive any dividends distributed and communications made in relation to the shares allocated in relation to that Application.

A separate Application Form shall be required in the following cases: (1) in the event that any person wishes to have Shares registered other than in the name of the principal applicant, or (2) when the number of Offer Shares applied for by any family member differs from that of the principal applicant.

Each applicant applies to acquire and own the number of Offer Shares applied for in the Application Form(s) submitted by the applicant (or such lesser number as allocated to that applicant) in return for payment of the number of Offer Shares applied for (or such lesser number as allocated to that applicant) multiplied by the Offer Price SR 260.

The full amount of the Offer Shares subscribed for shall be paid at any branch of the Receiving Banks by debiting the account of the subscriber at any of the Receiving Banks.

The Company reserves the right to reject any Application in whole or in part if the Application fails to satisfy any condition or requirement of the Offer. The applicant shall accept the number of Offer Shares allocated to him unless it exceeds the number of Offer Shares applied for.

Acknowledgments:

By completing and submitting a Share application Form, the applicant acknowledges the following:

- a. That he agrees to apply to the Company for the number of Offer Shares stated in the Share Application Form;
- b. That he has reviewed the Prospectus in its entirety, studied it carefully and understood its contents;
- c. That he accepts the By-Laws of the Company and the conditions set out in this Prospectus and made the application on this basis;
- d. That he does not waive his right to claim from the Company and may have recourse against it for all damages directly resulting from incorrect or inadequate material information contained in this Prospectus or as a result of the omission of material information directly affecting the applicant's decision to subscribe should it be included in the Prospectus;
- e. That neither he nor any of the individuals included in the Share Application Form have previously submitted a Share Application Form subscribing for the Offer Shares. The Company shall have the right to reject all applications of any applicant if that applicant submits multiple applications;
- f. That he accepts the shares allocated to him by virtue of the Share Application Form as well as all the conditions and instructions set forth in this Prospectus; and
- g. That he may not cancel or amend the Share Application Form after its submission to any Receiving Bank.

Lead Manager and Receiving Banks

The parties authorised to solicit applications for the Offer Shares on behalf of the Selling Shareholders are the Lead Manager and the Receiving Banks (whose names are listed on page *vi* of this Prospectus). Distribution and collection of all Share Application Forms and orders, collection of monies and notification of final allocation of Offer Shares, refunds of proceeds for unallocated Offer Shares following the closing of the Offer shall be performed by the Lead Manager, in conjunction with the Receiving Banks.

English translation of the official Arabic prospectus

3. DIVIDEND POLICY

Any decision to pay cash dividends to shareholders will be at the discretion and upon the recommendation of the Board, after taking into account various factors then existing, including the financial condition of the Group, covenants restricting the payment of dividends in agreements entered into by the Company or any of its Subsidiaries, results of operations, current and anticipated cash needs and plans for expansion.

It is the intention of the Company to make dividend payments with a view to maximizing shareholder value commensurate with the ongoing capital expenditure and investment requirements of the Company and its Subsidiaries.

English translation of the official Arabic prospectus

4. INDUSTRY OVERVIEW

The dairy industry in the Middle East has evolved considerably over the last half century from the importation of products produced offshore to the current use of sophisticated heat treatment and packaging technologies and branding, product differentiation and marketing techniques.

A key factor in the dairy industry in the Middle East is the arid climate, which places limits on the production of key raw materials locally and necessitates the importation of a significant portion from abroad.

The Company, like many of its competitors, is required to source key raw materials such as SMP and AMF from overseas. SMP is the primary ingredient in recombined milk and the fluctuation in its price requires producers to carry out detailed evaluations and assessments to secure supplies at competitive prices.

The market in which the Company operates is highly competitive. UHT milk is SADAFCO's primary product, comprising a range of items including whole milk, skimmed milk, enriched milk, and flavored milk. Due to the expansion of domestic dairies there has been an increase in the supply of fresh milk, particularly in the cooler winter months. Producers of fresh milk are able to use this surplus milk to manufacture and sell UHT products, placing them in direct competition with the Company. The UHT milk market is expected to grow at a rate equal to the population growth rates.

The Company is also active in the ice cream, juice and foodstuffs markets, (which include tomato paste, snacks, hommos, mutabal, cheese and chilled products such as yoghurt drink and yoghurt). Ever-changing consumer demands and the competitiveness and fragmentation of these markets require constant product differentiation and innovation in order for market participants to maintain their places. Section 5 sets out the Company's key competitive advantages which, in the Company's view, allow it to maintain and improve its position in the markets in which it operates.

5. THE COMPANY

5.1. Introduction

SADAFCO was established in 1976 with the formation of Danish Saudi Dairy Company, a joint venture between various Saudi businessmen, Kuwaiti businessmen and Danish Turnkey Dairies. Commercial production of UHT milk at the Company's Jeddah factory commenced shortly thereafter. In 1987, the Company acquired the Saudi Danish Dairy Company of Riyadh and in the early 1990's merged with Gulf Danish Dairy Company and Medina Danish Dairy Company, thereby forming SADAFCO. The change of name to SADAFCO took place in 1993. Since the early 1990's, in addition to milk-related products including ice cream, the Company has expanded its product range with the introduction of tomato paste, cheese (through a joint venture with a subsidiary of the New Zealand Dairy Board), hommos, bottled water and snacks. The table below highlights the important milestones in the Company's history.

Important milestones in SADAFCO's history

<i>Year (Gregorian)</i>	<i>Milestones</i>
1976	Danish Saudi Dairy Company established in association with Danish Turnkey Dairies
1976	Plant at Jeddah commissioned to manufacture recombined UHT milk
1980	Plant at Dammam commissioned
1987	Acquired Saudi Danish Dairy Company of Riyadh
1989	First company in Saudi Arabia to launch tomato paste in Tetra Pak packaging
1990	Merged with Gulf Danish Dairy Company and Medina Danish Dairy Company to form SADAFCO
1994	Established Swiss Premium Foods, Egypt
1995	Joint Venture with Milk Products Holding, a subsidiary of New Zealand Dairy Board for manufacture of cheese
1995	Acquisition of Sara Snack Food Factory, Jeddah
1998	First company to launch long-life hommos in Tetra Pak packaging
1998	Commenced production of bottled water and carbonated juice drinks
1998	Established regional distribution centre at Jeddah
2000	Converted to a closed joint stock company with introduction of new investors
2004	Completion of manufacturing rationalisation and consolidation

Source: Company

5.2. Business Overview

Since its incorporation, the Company has expanded its product range to become a significant player in the Saudi food and dairy market. The dairy segment, comprising UHT and flavoured milk, ice cream and cheese, accounts for approximately 80% of the Company's sales. The other major product categories are foodstuffs comprising tomato paste, snacks, hommos, mutabal and juices. The Company currently holds the highest market share in UHT milk and tomato paste (by reference to sales revenue) and ice cream (by volume) in Saudi Arabia. The Company also has a growing presence in the snacks market and a significant presence in the feta cheese market.

The Company has leveraged its market presence and strong brand to introduce a broad range of products sold under its flagship “SAUDIA” brand, associated with the name "SADAFCO". Products are also marketed under other brands such as ‘Baboo’, ‘Crispy’, ‘Majestique’ and ‘Chillz’.

Further details regarding the Company's current product range are set out below:

5.2.1. UHT Plain and Flavoured Milk

UHT milk is SADAFCO’s primary product comprising a range of items that include whole milk, skimmed milk, enriched milk and flavored milk. These products are marketed primarily under the "SAUDIA" brand associated with the name ‘SADAFCO’.

The Company has increased sales of UHT milk by focusing on maintaining quality and product innovation. The Company has launched premium products/brands such as ‘Livewell’, a probiotic drink targeted specifically at health-conscious consumers. The launch is also reflective of SADAFCO’s strategy to focus on premium niche products to complement its presence in the high volume UHT milk segment.

Over the next five years, the Directors estimate that the market for UHT milk will grow at a rate equal to the population growth rate. While the market for fresh milk is expected to grow at a higher rate than UHT milk, the Directors believe that this should not adversely impact the market for UHT milk.

5.2.2. Ice cream

SADAFCO markets ice cream under the ‘SAUDIA’ brand associated with the name ‘SADAFCO’, as well as ‘Baboo’ and ‘Movenpick’ brands. Movenpick products are produced by the Company under license in Saudi Arabia since 1989, and sold under license in Saudi Arabia, Kuwait, Oman, Qatar, UAE and Bahrain.

The Directors believe that the long-term outlook for the ice cream market remains stable. SADAFCO plans to build on current sales in the ice cream sector by continuously developing the existing product range and launching new products to maintain consumer demand.

5.2.3. Juices

SADAFCO sells products in the juice market principally under the ‘SAUDIA’ brand associated with the name "SADAFCO". In 2001 the Company introduced the ‘Majestique’ and ‘Chillz’ brands. SADAFCO is the licensee in Saudi Arabia, Qatar and Bahrain for the ‘Fayrouz’ and ‘Birell’ brand of flavoured malt beverage. The Company also has a presence in the bottled water segment under the ‘Saudia’ brand. The new brands introduced by the Company cater to various market segments.

The Company has recently launched iced tea under the ‘Chillz’ brand and a carbonated energy drink under the ‘GR8’ brand. The Company has also recently launched the ‘Bonjus’ brand of natural juices.

The market for juice products is highly fragmented and SADAFCO is aiming to increase its presence in the juice market with the launch of the new product ranges outlined above.

In the next few years, SADAFCO intends to concentrate on introducing value-added beverage brands and variants catering to the needs and aspirations of regional consumers.

5.2.4. Foodstuffs

SADAFCO's foodstuff business can be categorised into tomato paste, snacks, hommos and mutabal products. The Company will continue to evaluate other foodstuff opportunities and is likely to launch other products in the foodstuffs category.

Tomato Paste

SADAFCO was the first company in Saudi Arabia to launch tomato paste in Tetra Pak packaging. The Company plans to maintain and increase market share by introducing a range of products to widen the market for tomato paste, thereby creating brand differentiation through value-added, competitively priced offers.

Snacks, Hommos and Mutabal

SADAFCO entered the snack food market with the acquisition of Sara Snack Foods in 1995 (which has subsequently been incorporated within the Company's manufacturing division). The Company's snack food products are sold under the Crispy brand with nearly 30% of the Company's sales being made in schools.

Other foodstuffs currently manufactured by SADAFCO include hommos and mutabal. SADAFCO was the first in the world to launch hommos and mutabal in 125 ml Tetra Pak packaging. While SADAFCO plans to maintain its presence in the current product categories, it is also considering entering the "ready-to-eat" segment. Product innovations, line extensions and rationalisation will continue to meet changing consumer tastes and trends.

5.2.5. Cheese

SADAFCO markets cheese manufactured by its joint venture company, SNZMPL under the "SAUDIA" brand associated with the "SADAFCO" name.

SADAFCO is the leading domestic producer of bulk feta cheese (in quantities equal to or exceeding 5kg). The feta cheese market is subject to strong competition from imports, especially from Europe.

5.2.6. Chilled Products

In order to continue to diversify its product portfolio and create a presence in the fast growing fresh/chilled product segment, SADAFCO launched a range of chilled products in 2001. The fresh/chilled product portfolio includes yoghurt drink, dessert, pudding and regular yoghurt. The focus has been on value-added premium products which are sold under the Livewell brand.

SADAFCO is currently realigning its chilled products portfolio with new product launches. The Company also converted a range of existing products from fresh liquid milk to recombined products.

5.3. Product Pricing

SADAFCO's pricing strategy supports the premium quality image associated with certain of its products. Certain of the Company's products are sold at a premium in relation to key competitor products. Despite facing increasing competition from global and local players and decreasing prices in major product categories, SADAFCO has been able to maintain prices of certain of its products at a premium, an indicator of the strong brand loyalty that it commands, and expects to continue to do so.

5.4. Competitive Advantages

The Board believes the following to constitute the competitive advantages of the Company. However, this section should be read in conjunction with the "Risk Factors" appearing in Section 1 this Prospectus.

Distinguished Brands

"Saudia" Milk, Tomato Paste and Ice Cream, the flagship brands of SADAFCO, are well established in the Saudi market. The Company also sells products under a number of other brands such as 'Baboo', 'Chillz' and 'Majestique'.

Market Position

SADAFCO has capitalised on its early mover advantage to become a market leader in UHT milk, ice cream and tomato paste which together account for over 80% of SADAFCO's revenue. SADAFCO has attained market leadership on account of what the Directors believe are quality products that are sold at a premium price.

Growth through Product Innovation and Expansion

SADAFCO has regularly widened its product portfolio through new product extensions and innovative packaging solutions. For example, SADAFCO was the first company in Saudi Arabia to launch skimmed milk under the brand 'Saudia Skimmed Milk' and specially formulated 'Junior Milk' for children in Saudi Arabia, as well as 'Saudia' Hommos and Mutabal in 125 ml Tetra Pak packages, and Tomato Paste in consumer-friendly packages.

Consistent Track-record of Profitability

SADAFCO has increased profits in each of the last three completed financial years and has a sustained dividend-paying track-record. The Company's strong financial performance, coupled with improving operational efficiencies, means that the Company is well positioned to capitalise on emerging opportunities in its markets.

Experienced team of key management and operating personnel

SADAFCO has an experienced and qualified management team which has considerable expertise and strong industry knowledge (brief biographies of members of the management team can be found in Section 6 of this Prospectus).

Strength of Distribution Network

SADAFCO has an established distribution network allowing broad distribution of its products throughout Saudi Arabia and certain Gulf States.

5.5. Key Raw Materials

Given the breadth of the SADAFCO product range, the requirements of key raw materials are also varied. The following constitute the primary materials used in production lines:

Skimmed Milk Powder (SMP)

Skimmed Milk Powder (SMP) is the primary ingredient in recombined milk and constitutes a significant portion of the total cost of the finished product. SADAFCO imports SMP from Australia, New Zealand and Europe. SADAFCO has consistently sought to broad-base its supply requirement to avoid excessive reliance on any single source. SMP prices follow a cyclical trend and have fluctuated widely in the past. Given the inherent volatility and cyclical nature of SMP prices, SADAFCO carries out detailed competitive evaluations of the prices and quantities from various sources before placing orders through a tendering process.

Anhydrous Milk Fat (AMF)

AMF is used in a range of SADAFCO's products including whole milk, semi-skimmed milk and ice cream. AMF is extracted from raw milk in a similar manner to the SMP extraction process and is therefore often supplied by the same companies that supply SMP.

Tomato Paste Concentrate

Tomato paste concentrate is the main raw material for SADAFCO's tomato pastes and sauces, accounting for nearly 50% of the total cost of the finished product. Tomato paste concentrate is imported from Turkey using a tendering process.

Juice Concentrate

Based on the juice products being manufactured, juice concentrate accounts for 5 to 27% of the total cost of finished juice products. Juice concentrate prices are determined through regular price negotiations with key suppliers.

5.6. Manufacturing Facilities

SADAFCO's three principal manufacturing facilities are located in Jeddah (2 facilities) and Dammam (1 facility). These factories are located on leased properties.

5.6.1. Jeddah

The land on which the Company's main Jeddah factory is built is leased to SADAFCO by the management of the Jeddah Industrial City (Phase 1), which is a department of the Ministry of Commerce and Industry. The lease was renewed in 1994 and is valid for 25 years, renewable by the mutual consent of the parties. The lease is terminable by the landlord on 1 year's notice where there is a serious breach of the lease by SADAFCO. The rental amount is fixed for the life of the lease.

This factory focuses on high volume production of whole milk in 1 litre, 500 ml and 200 ml cartons and is responsible for 70% of the Company's total milk production (by volume). The factory also packs the newly launched evaporated milk. Following an operational restructuring (described in Section 5 below), the PET bottling facility (formerly located at Medina) and the snacks manufacturing lines also relocated to the main factory in October 2004.

A second factory in Jeddah currently houses the ice-cream manufacturing line that has been relocated from Riyadh as part of a recently completed operational restructuring. The factory was made operational in May 2004.

The land on which this second factory is built is leased to SADAFCO by the management of the Jeddah Industrial City (Phase 1), which is a department of the Ministry of Commerce and Industry. The lease was renewed in 2004 and is valid for 25 years, renewable by the mutual consent of the parties. The lease is terminable by the landlord on 1 year's notice where there is a serious breach of the lease by SADAFCO. The rental amount is fixed for the life of the lease.

5.6.2. Dammam

The Dammam factory is a diverse facility, where a wide range of SADAFCO's products are manufactured. The factory produces most of SADAFCO's special milk products, including whole milk, low fat, skimmed milk, flavoured milk and fortified milk. The entire production of juices, tomato paste, hommos and mutabal is carried out at the Dammam facilities.

The land on which the Dammam factory is built is leased to SADAFCO by the management of the Industrial City, which is a department of the Ministry of Commerce and Industry. The lease commenced in 1995, and is valid for 25 years, renewable by the mutual consent of the parties. The lease is terminable by the landlord on 1 year's notice where there is a serious breach of the lease by SADAFCO. The rental amount is fixed for the life of the lease.

Key Statistics of the Jeddah and Dammam Factories

	<i>Jeddah</i>	<i>Dammam</i>
Year built	1976	1980
Occupied Area	21,712.5 sq. metre	22,500 sq. metre
Production Capacity (Per day)	600,000 litres	500,000 litres
Utilisation	90%	70%
Manpower	162	103
Product Line	Milk, Snacks and PET Packaged products	Milk, Juices, Tomato Paste, Hommos

Source: Company.

The Company operates a regular maintenance programme and considers that the factories and the equipment used in them are suitable for continued use in the Company's operations for the foreseeable future. Further information in relation to the Company's properties is set out in Section 10 of this Prospectus.

5.6.3. Filling Lines

SADAFCO's products are primarily packaged in aseptic packaging provided by Tetra Pak. In addition to its numerous Tetra Pak filling lines, the Company also has PET Bottle and snack filling lines.

5.6.4. Operational Restructuring

In line with its manufacturing strategy of maximising operational efficiencies, SADAFCO initiated a detailed consolidation project of factories designed to achieve cost reductions and improvements in utilisation.

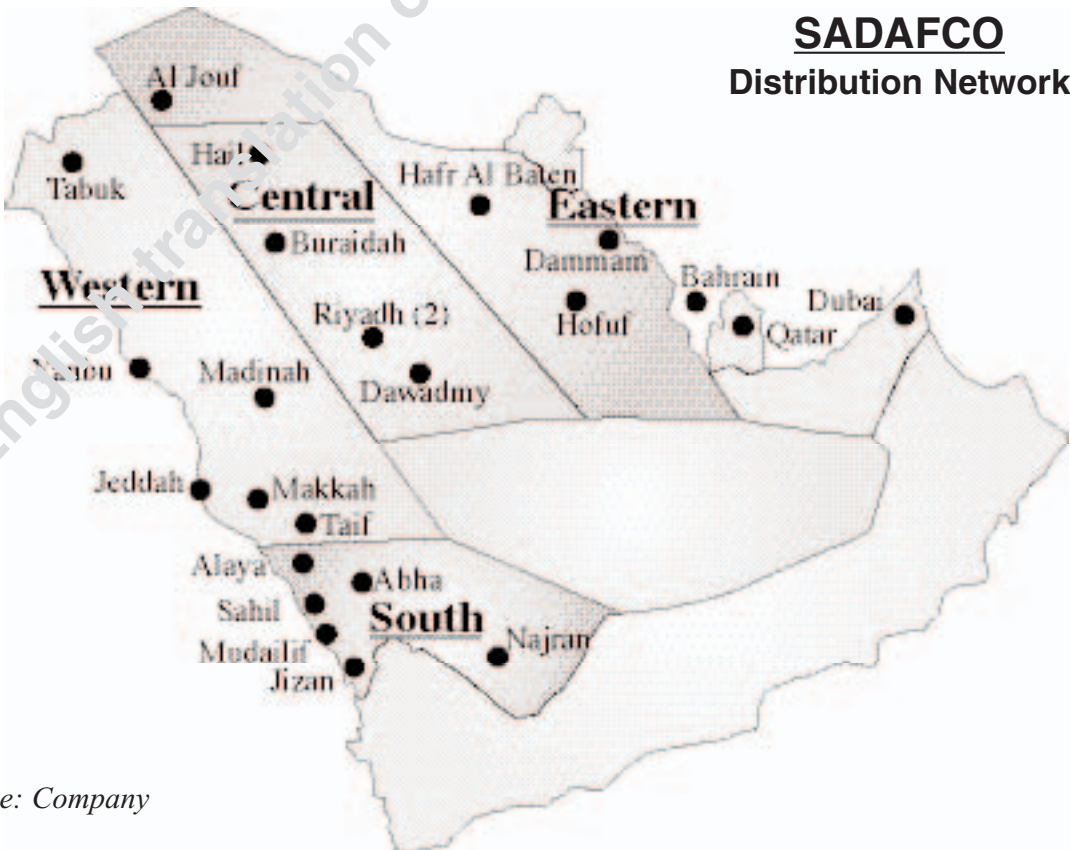
The consolidation has rationalised operations by moving manufacturing facilities to three sites - two in Jeddah and one in Dammam - thereby achieving significant cost reductions. The sites were chosen based on their geographic advantages.

The consolidation of factories was implemented in stages in order to avoid any disruption of the normal production schedule and was finally completed in October 2004.

5.6.5. Distribution Network

SADAFCO has a well-established distribution network that transports its products to key markets across the country and neighbouring Gulf States. From the factories in Jeddah and Dammam, finished products are shipped to the regional distribution centre in Jeddah and to 24 distribution warehouses in Saudi Arabia and the Gulf. Most distribution centres are equipped with air-conditioned freezer storage areas and transport and distribution facilities. SADAFCO has a sales fleet of over 500 delivery trucks and vans delivering to a retail network of over 20,000 outlets across Saudi Arabia.

The following illustrates the Company's distribution warehouses throughout Saudi Arabia and the Gulf.



Source: Company

The retail network in Saudi Arabia has traditionally been dominated by "Bagalas". However, the retail structure is rapidly evolving with organised formats such as supermarkets and hypermarkets gaining importance. SADAFCO has pro-actively adopted Key Account Managers to develop this business segment.

The following table shows the composition of SADAFCO's sales across key distribution channels in the current financial year.

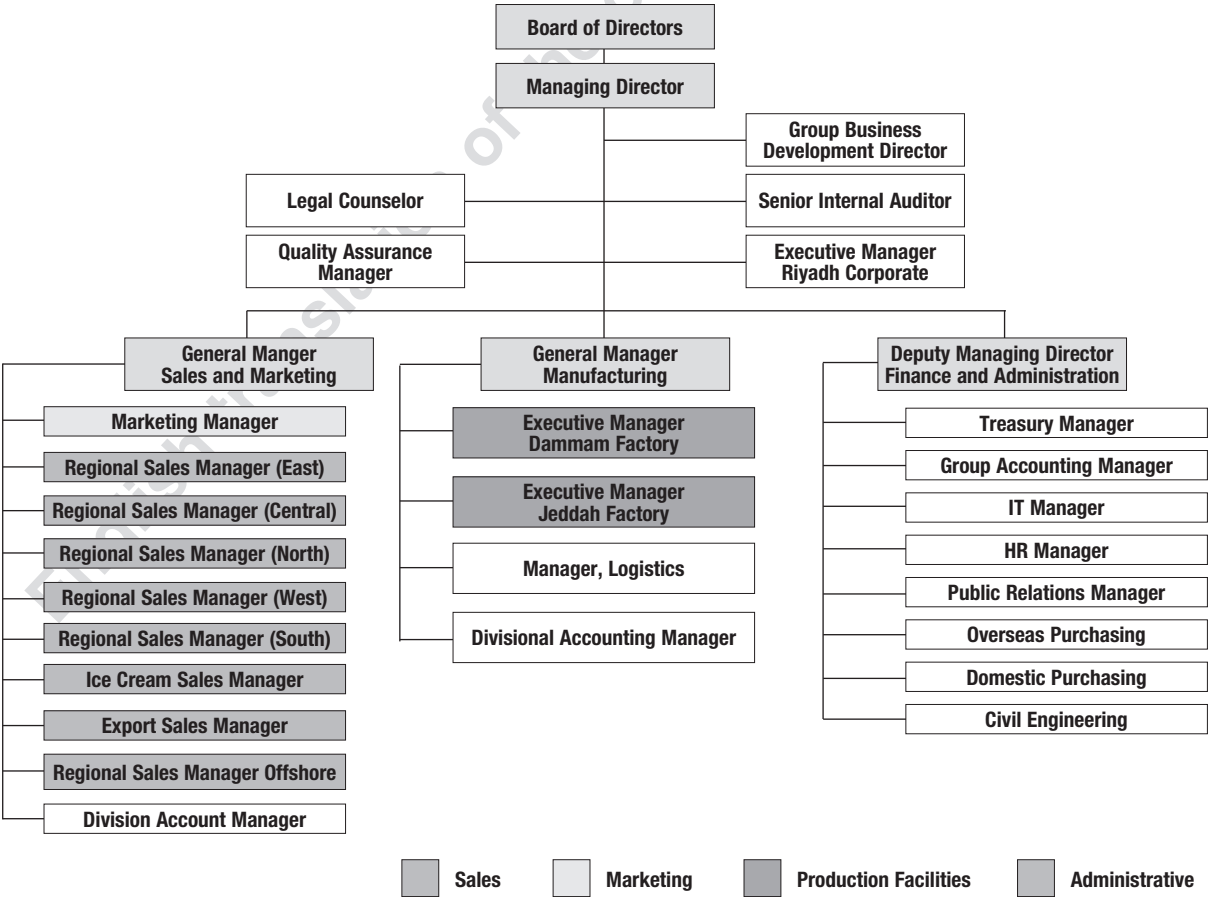
Composition of Sales across Key Distribution Channels

<i>Distribution Channel</i>	<i>% of Sales</i>
Bagalas	38%
Wholesalers	33%
Supermarket	15%
Groceries	7%
Catering	7%

Source: Company

5.7. Organisation Structure

The Company is organised around three main functional divisions (sales and marketing, manufacturing, and finance and administration) and employs a staff of around 2,180.



Manufacturing Division

The manufacturing division has over 730 employees of whom 44% are employed at the Jeddah and 31% at the Dammam factories. The remaining 25% of manufacturing employees provide distribution and support services to the division.

Sales and Marketing Division

The sales and marketing division consists of approximately 1,300 dedicated personnel, a fleet of over 500 vehicles and 24 distribution warehouses across Saudi Arabia and the Gulf.

The sales function at SADAFCO is sub-divided into three groups – Milk and Related Products, Juices and Ice Cream. Certain marketing activities are carried on in conjunction with the Mohammed Saleh Sheikh Advertising Agency. Further information on related party agreements is set out in Section 6 of this Prospectus.

The Marketing Department at SADAFCO operates a comprehensive package of advertising and promotions, together with a full programme of merchandising.

Corporate Division

The Corporate Division provides the financial management, information systems, public relations, human resources, purchasing and administrative support to the operating divisions (manufacturing, sales and marketing). The Division has approximately 100 employees under the supervision of the Deputy Managing Director of Finance and Administration.

Head Office Division

The Head Office Division employs approximately 50 employees and is under direct supervision of the Managing Director. The Divisions has departments related to Business Development, Legal Affairs, Internal Audit and Quality Assurance, in addition to the Corporate office at Riyadh, as well as the executive management of the Dammam factory.

Saudisation

Over recent years SADAFCO has pursued an aggressive Saudisation programme. In SADAFCO's Saudi Arabian operations the percentage of Saudi nationals has grown to include 29.3% of the total Company's workforce. In addition to the SADAFCO's in-house Saudisation Training and Summer Students Development Programmes, the Company has also established in 2004 a partnership with the National Project For Training And Employment at the Governorate Of Makkah Al Mukarramah Region. SADAFCO's association with the project is expected to help to provide the Company with Saudi Arabian human resources services in hiring and training the right people for the right areas of the business.

In compliance with government guidelines the Company is employing Saudis at all levels throughout the organization as demonstrated in the following staff breakdown:

Staff Breakdown at Different Managerial Levels (September 2004):

	Grade Level	Saudi	Non-Saudi	Total Company	% Saudi
Senior Management	13-15	2	3	5	40.0%
Middle Management	11-12	13	18	31	41.9%
Supervisory	09-10	16	54	70	22.9%
Other (Sales, Manufacturing, Labors)	01-08	578	1397	1975	29.3%
Total		609	1472	2081	29.3%

5.8. Business Strategy

The Company's strategic priorities are centred around the following:

- **Strengthening and Developing Core Business:**
 - Upgrading the core products' performance and differentiation;
 - Growing the core product range to capture growth in higher value-added products; and
 - Complementing core product range with value product offers as appropriate.
- **Develop New Profitable Growth Opportunities:**
 - Rationalising the quality and variety of the current product portfolio; and
 - Develop a smaller number of "winning" products in attractive segments.
- **Optimise Distribution:**
 - Developing a clear competitive position in all categories;
 - Developing product capabilities suited for the food services channel; and
 - Continuing to improve the supply chain process.

In addition, the Company will pursue future opportunities to expand its operations. In order to do so, it may be appropriate for the Company to raise further funding. In suitable circumstances, the Company would fund its expansion through an increase of its share capital, giving its shareholders a priority right to subscribe for such new capital, in accordance with the Company's By-Laws.

Research and Development

A Central Laboratory has been established at the regional distribution centre in order to focus on product innovation and new product development. The modern laboratory facilities are equipped with dedicated rooms for chemical and bacteriological testing as well as organoleptic tasting of products. The Company allocated SR 3.847 million in the financial year ended in March 31, 2004 to research and development.

The Company's pursues an active policy of enhancing research and development activities. The Company's research and development practices can be divided into two functions:

- developing new products (using laboratory testing, production trials, quality and standards testing, feasibility studies); and
- refinement/improvement of existing products/changing use of raw materials, changing manufacturing processes.

The Company intends to continue the development of its research and development activities.

6. DIRECTORS AND MANAGEMENT

6.1. Board of Directors

The Board of Directors of SADAFCO comprise the following:

Sheikh Hamad Sabah Al Ahmed Al Sabah

Chairman

Age: 56

Nationality: Kuwaiti

Sheikh Hamad Sabah Al Ahmed Al Sabah is a well-known regional entrepreneur, and the originator of many of KIPCO's most successful investments. Sheikh Hamad Sabah Al Ahmed Al Sabah has been the Chairman of SADAFCO since its incorporation. In addition, he is on the Board of the following companies:

- Chairman of Kuwait Project Company (Holding) "KIPCO", Kuwait;
- Chairman of Gulf Egypt Hotels and Tourism Company, Egypt;
- Chairman of United Building Company, Egypt;
- Deputy Chairman of United Gulf Bank, Bahrain;
- Board member of National Mobile Telecom Company, Kuwait;
- Board member of Burgan Bank, Kuwait; and
- Board member of Kuwait Foundation for the Advancement of Sciences, Kuwait.

Mr. Faisal Hamad Al Ayyar

Member

Age: 50

Nationality: Kuwaiti

Mr. Faisal Hamad Al Ayyar is on the Board of the following companies:

- Managing Director of Kuwait Project Company (Holding)"KIPCO", Kuwait;
- Chairman of National Mobile Telecom Company, Kuwait;
- Chairman of United Gulf Bank, Bahrain;
- Vice Chairman of Gulf Insurance Co, Kuwait;
- Board member of Gulf Egypt Hotels & Tourism, Egypt; and
- Board member of United Broadcasting Company (Showtime).

Mr. Ahmed Mohammed Hamid Al Marzouki

Managing Director and Corporate Secretary

Age: 48

Nationality: Saudi

Mr Ahmed Mohammed Hamid Al Marzouki joined SADAFCO in 1985. Prior to his appointment as Managing Director, Mr. Marzouki held positions as Deputy Managing Director (Projects), General Manager (Finance & Administration), General Manager (Trading) and Sales & Marketing Manager. As Managing Director, Mr. Marzouki is directly responsible for implementation of the Business Plan. Mr. Marzouki has an MBA from California State College, USA.

Mr. Essa Khalid Al Essa Al Saleh

Member

Age: 50

Nationality: Kuwaiti

Mr. Essa Khalid Al Essa Al Saleh is the Managing Director CEO of United Industries Company (Kuwait) since 2002. He is the Vice Chairman of ME Hempel Danish Paints Company since 2004, Consultant at United Fisheries of Kuwait since 2003. He has had a distinguished career as:

- 1993-2002: General Manager, Al Ahlia Investment Company;
- 1996-2002: Chairman/Managing Director, Shuaiba Paper Products Company;
- 2000-2002: Acting General Manager, Al Ahlia Industrial Projects Company;
- 1993-1998: Director, Kuwait Industrial Union;
- 1999-2001: Chairman, Kuwait Industrial Union; and
- Since 2000: Director – Board of Trustees, Center of Excellence - Kuwait University.

Mr. Al Essa holds a Bachelor of Science in Industrial Engineering - (major) Marketing – (minor), University of Portland – Oregon, U.S.A.

Mr. Abdullah Yacoub Bishara

Member

Age: 68

Nationality: Kuwaiti

Mr. Abdullah Yacoub Bishara has had a distinguished career as:

- 1981-93: Secretary General of Gulf Cooperation Council;
- Feb 1979: President of Security Council;
- 1971-81: Ambassador of Kuwait to the United Nations; and
- 1961-71: Director, Office of the Minister of Foreign Affairs.

Mr. Bishara is also a member of the following institutions:

- Member of the Gulf Cooperation Council Supreme Advisory Assembly
- President of Diplomatic Center for Strategic Studies

Mr. Bishara holds a BA from Cairo University and a Masters of Political Science from Saint Johns University, New York.

Mr. Mohammed Ahmed Saeed Basamh

Member

Age: 56

Nationality: Saudi

Mr. Mohammed Ahmed Basamh is the Deputy General Manager of Al Samh for Trade Company Ltd. Mr. Basamh is a member of the Industrial Committee of Jeddah Chamber of Commerce and Industry, and the Chairman of the Refined Food Company, Jeddah. In addition, he sits on the boards of Watani Trading Co., Jeddah and the Arab Society of Certified Accountants. Mr. Basamh holds a bachelors degree in business administration from the American University of Beirut.

Mr. Faick Hussein Mohammed Al-Saleh

Member

Age: 53

Nationality: Saudi

Since 1981, Mr. Al Saleh has been general manager of Abdulaziz M. Al Hassawi Main Investment Office, Al Messila Contracting Est., Fawaz Refrigerator & Air Conditioning Group and Al Messila HVAC Equipment Factory (all based in Al Khobar). Since 2002, he has been the coordinator of the SAS Radisson Hotels in Saudi Arabia. In addition, Mr. Al Saleh is currently a board member of Tal'jeer Co. Ltd. for machinery, equipment and vehicles trading. Mr. Al Saleh holds a bachelors degree in business administration from Kuwait University.

No Director has been subject to any bankruptcy proceedings.

Following the Offer, it is intended that the Board be reconstituted to include public representation.

Board Committees

The Board has constituted an Audit Committee to carry out certain functions in relation to aspects of the Company's audit and accounting policies and procedures. The Audit Committee is comprised of three members and reports directly to the Board.

The Board will continue to review and implement current practices of sound corporate governance by establishing further special committees when appropriate.

Compensation of Board of Directors

The total remuneration for the Directors and the amounts paid to the Chairman and the Managing Director for the past two financial years is set out in the following table:

Details of Compensation of the Board of Directors:

Year	Remuneration to the Board of Directors, including Chairman and Managing Director
2002-03	SR 4,250,000
2003-04	SR 4,110,000

Source: Company

6.2. Executive Management

SADAFCO's executive management constitutes an executive committee which reports to the Board. The senior executive management comprise industry professionals who have considerable expertise and industry knowledge. A brief profile of the executive committee members is given below:

Ahmed Mohammed Hamid Al Marzouki, Managing Director and Corporate Secretary

Mr Ahmed Mohammed Hamid Al Marzouki's profile is as set out above. Direct responsibilities also include the Sales and Marketing Division. Mr Marzouki is responsible for the Sales and Marketing Division pending the appointment of a suitable replacement for the General Manager of Sales and Marketing.

Poul Tomsen, Deputy Managing Director - Finance & Administration

Age: 60

Nationality: Danish

Poul Tomsen has been with SADAFCO since 1995 as the Deputy Managing Director- Finance & Administration. Mr. Tomsen has over 41 years of experience and previously worked at Alfa Laval, Astra, Haveman Vesterbro and Sorenson & Rye. Mr. Tomsen is a Danish national and has a Master of Science Degree in Economics from Copenhagen Business School, Denmark.

Frank Bolton, General Manager, Manufacturing

Age: 55

Nationality: British

Frank Bolton joined SADAFCO in 1999, he has extensive experience in the UK dairy industry covering all aspects of factory management, production, distribution, logistics and engineering. Mr. Bolton is a British national and has a Bachelors degree in Industrial Management from both Preston and Worcestershire Polytechnic, UK and a Diploma in Food & Dairy Science from Reaseheath College, Cheshire, UK.

6.3. Corporate Governance

SADAFCO operates a practice of corporate governance based on a professional code of ethics in accordance with the principles of transparency, integrity and accountability.

SADAFCO's system of corporate governance provides a framework within which the Board and management address their respective roles in the following manner:

Role of SADAFCO's Board of Directors

- SADAFCO's business is managed under the direction of the Board. The Board delegates to the Managing Director and through him to other executive managers the authority and responsibility for managing the day to day affairs of the Company.
- SADAFCO's Board brings a wide range of experience, knowledge and judgment. Directors are encouraged to maintain an attitude of constructive criticism and to ask incisive, probing questions and require accurate, honest answers; they act with integrity and demonstrate a commitment to the Company's plans and long-term values.
- SADAFCO's Board is entitled to rely on the advice, reports and opinions of management, counsel, auditors and expert advisors. The Board assesses the qualifications of those it relies on and holds managers and advisors accountable.

Role of SADAFCO's Managing Director and Executive Committee

- The corporate governance model followed by SADAFCO requires SADAFCO's Managing Director and senior management to operate the Company in an effective and ethical manner.
- To ensure consistency of approach, SADAFCO's Managing Director is also a member of the Board.
- SADAFCO's Managing Director and senior management functions carry with them a number of specific responsibilities. These include strategic planning, preparing annual operating plans and budgets, selecting qualified management establishing an effective organisational structure and identifying and managing risks and good financial reporting.

Performance Measurement

SADAFCO has strong controls to review and measure performance. These internal and external control mechanisms audit and ensure compliance with stipulated norms. The various control mechanisms include:

- **Internal Controls:** These include committees for approving large capital expenditure, complying with quality requirements, steering new product development and reviewing key performance indicators on a regular basis. An internal audit committee currently consists of three Directors, who meet to review and confirm financial results before each General Assembly Meeting.
- **External Controls:** The other measures which are taken to ensure transparency to shareholders are compliance with the requirements of the Saudi Arabian Standards Organisation, ISO, Health and Safety standards; and completion of external audit of financial statements on an annual basis.

6.4. Related Party Arrangements

The Company carries on certain transactions with related parties. Related parties are the shareholders of the Company, its directors, senior executives, or employees or any of their respective relatives or affiliates. These transactions may be summarised as follows:

Name of party	Nature of transaction
Saudi New Zealand Milk Products Company Limited, Saudi Arabia	SADAFCO owns 51% of SNZMP, an unconsolidated subsidiary of SADAFCO. SNZMP manufactures various dairy products at its plant in Dammam under licence from Fonterra (formerly the New Zealand Dairy Board). SADAFCO purchases cheese products from SNZMP on a monthly basis. Such purchases are made on an arms' - length basis against purchase orders (accordingly, there is no formal purchase and supply agreement in place).

Name of party	Nature of transaction
Mohammed Saleh Sheikh Advertising Agency (Dynamics)	<p>Mr. Mohammed Abdul Wahab Mohammed Saleh Sheikh owns a sole proprietorship established in Jeddah named the Mohammed Saleh Sheikh Advertising Agency. This agency provides advertising services to SADAFCO.</p> <p>Mr. Mohammed Abdul Wahab Mohammed Saleh Sheikh is also the Executive Manager of SADAFCO's factory in Jeddah, and is the son of Mr. Abdul Wahab Mohammed Saleh Sheikh, who owned 1.87% of SADAFCO as at the date of this Prospectus.</p>
BlueBird Travels Limited	<p>Blue Bird Travels Limited is owned by Mr. Mohammed Abdul Wahab Mohammed Saleh Sheikh, Mr. Ahmed Al Marzouki (the Managing Director of SADAFCO) and Mr. Hamdan Abdullah Abdul Aziz Al Nassar (who owns 0.55% of SADAFCO). Blue Bird Travels Limited provides travel agency services to SADAFCO and is located at SADAFCO's premises in Jeddah.</p>
Lebanon Fruit Juice, Lebanon	<p>Lebanon Fruit Juice is owned by F&B Venture Holding Co, in which SADAFCO holds Shares. SADAFCO purchases fruit juices and other beverages from Lebanon Fruit Juice. Such purchases are made on an arms' - length basis against purchase orders. There is no formal purchase and supply agreement in place.</p>
Saudi Pearl Insurance Co	<p>Saudi Pearl Insurance Co is partially-owned by Gulf Insurance Company, Kuwait (which is part of the KIPCO group). KIPCO holds 1.05% of the Shares of SADAFCO. Saudi Pearl Insurance Co provides all of SADAFCO's insurance requirements.</p>
United Gulf Bank	<p>UGB owns 13.02% of SADAFCO prior to the Offer. UGB issued a guarantee to SADAFCO on 30 December 2004 which is due on or before 30 June 2005. UGB has agreed to pay to SADAFCO on its first demand the sum of SR 91,579,421 which is the outstanding amount due for the sale of SADAFCO's interest in EDAFCO and in F&B Venture Holding as well as a straw factory to Biomatrix Investment Holding Company Limited.</p>

7. BUSINESS OF THE SUBSIDIARIES AND ASSOCIATES

SADAFCO has an established trading presence across the Middle East markets through its Subsidiaries and Associates.

The Company continuously reviews its off-shore operations and activities, and in appropriate circumstances may expand its off-shore operations. Similarly, the Company may choose to consolidate its off-shore activities where beneficial to the Company to do so.

As of March 31, 2004, the combined income included in the Company's consolidated accounts (before accounting for minority interests) arising from the Subsidiaries constitutes less than 6 % of the total combined revenue of the Company and its Subsidiaries. Some of the Subsidiaries have recorded losses in their last financial year. Further information on the basis of consolidation of the Subsidiaries and treatment of investment income in relation to long-term investments is set out in the Company's financial statements appearing in Section 11 of this Prospectus. While not material to the overall profitability of the Company and its Subsidiaries, certain off-shore operations are maintained by SADAFCO for strategic reasons.

None of the Subsidiaries are publicly traded.

Further information on the trading activities of the Company's Subsidiaries and Associates and SADAFCO's shareholding is provided in the following tables. SADAFCO'S ownership in these companies is set out in more detail in Section 10.

SADAFCO's Subsidiaries

<i>Name of the Entity</i>	<i>Nature of Operations</i>	<i>SADAFCO's Legal Ownership</i>
Swiss Premium Foods Company SAE, Egypt	A closed joint stock company owned by SADAFCO and certain related parties of SADAFCO. The company manufactures and distributes ice cream in Egypt under its own brand "Maxo". The remaining shares are owned 3.5% by UIC and 0.2% by Sara Trading.	96.3%
Arab Company for Animal Produce SAE, Egypt	The company owns a farm and facilities for milk and meat processing. It also owns livestock and a feed factory. The company's principal customer is EDAFCO. SADAFCO is the registered owner of 54% of this company, with an additional 1% held by nominees and the remaining 45% shareholding held by 7 other individuals and companies.	54%
SADAFCO Foodstuff & Drinks Company, Egypt	A closed joint stock company (currently in liquidation) incorporated to acquire land in the Sadat Industrial Area in Egypt. The liquidation is intended to be completed during 2005. The remaining 42% is held by nominees on behalf of SADAFCO.	58%

SADAFCO Foodstuff Company LLC, UAE	A limited liability company for marketing, distribution and sale of SADAFCO's products in the UAE. In accordance with an agreement with the other shareholder in the Company, SADAFCO is entitled to receive 100% of the dividends payable by the Company. In the event such agreement ceased to be enforceable (or if it is set aside), SADAFCO may no longer be entitled to all such dividend.	50%
SADAFCO Qatar	A trading company for marketing, distribution and sale of SADAFCO's products in Qatar. SADAFCO owns 75% of this company, with the remaining 25% being held by a Qatari businessman, Mr. Mohammed Mubarak Al Khulaifi.	75%
SADAFCO Bahrain Company, WLL, Bahrain	A trading company for marketing, distribution and sale of SADAFCO's products in Bahrain. In accordance with an agreement with the other shareholder in the Company, SADAFCO receives 100% of the dividends payable by the Company. In the event such agreement ceases to be enforceable (or if it is set aside), SADAFCO may no longer be entitled to all such dividend.	50%

SADAFCO's Associated Companies

Saudi New Zealand Milk Products Company Limited, Saudi Arabia	<p>A joint-venture between SADAFCO and MPH, a wholly owned-Bahrain subsidiary of NZDB. The factory is managed by MPH and products are sold to SADAFCO at pre-determined transfer prices. SNZMPL produces processed cheese for SADAFCO and a number of other local manufacturers and packages milk powder under the "Anchor" brand.</p> <p>SNZMPL's financial statements are not consolidated in SADAFCO's accounts as SADAFCO does not have management control of the company.</p>	51%
SADAFCO Jordan Foodstuff Company, Jordan	A joint venture between SADAFCO and the company of Khazer Abdul Hamid Al Akrabawi and Sons. The company distributes Mövenpick ice cream, imported from Saudi Arabia, in Jordan. The form of the joint venture is currently under review.	50%
Egyptian Dairy and Foodstuff Company, Egypt	<p>EDAFCO produces UHT and flavoured milk, fruit juices, tomato paste and certain other related products.</p> <p>SADAFCO disposed of the majority of its stake in EDAFCO in 2001 pursuant to a sale and purchase agreement with Biomatrix Investment Holding Company Limited ("Biomatrix"). A portion of the purchase price payable in</p>	98.14%

	<p>relation to such sale remains outstanding (supported by a bank guarantee) from United Gulf Bank. Further information in relation to this receivable is contained in the Company's financial accounts set out in Section 11 of this Prospectus.</p> <p>Although SADAFCO remains the registered owner of 353,320 shares in EDAFCO (representing 98.14% of the total share capital), 286,189 shares (representing 79.50% of the total shares capital) are beneficially owned by Biomatrix following the share sale and SADAFCO has no independent voting, dividend or other rights in relation to them.</p>	
F&B Venture Holding, SAL (Lebanon)	<p>F&B Venture Holding SAL (Lebanon) is the holding company for LFJ and RJW Foods which operate in the juices, dairy products and ice cream segments in Lebanon.</p> <p>SADAFCO is currently the legal owner of 13,443 shares (representing 74.5% of the total share capital) in F&B Venture Holding SAL.</p> <p>Of these 13,443 shares, SADAFCO is the registered owner of 10,888 shares (representing 60% of the total share capital) that are beneficially owned by Biomatrix following a share sale in 2001 and a debt conversion, and SADAFCO has no independent voting, dividend or other rights in relation to them. Further information regarding the receivables and UGB bank guarantee associated with the share sale are set out in Section 11 of this Prospectus.</p>	74.5%
Raad Stores Company K.S.C.C, Kuwait	<p>Raad Stores Company K.S.C.C is appointed as SADAFCO's sole agent and distributor in Kuwait. SADAFCO owns 1,200,000 shares of the 50,000,000 shares in the company (a total of 2.4%).</p>	2.4%

Source: Company

8. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

8.1. The Three Financial Years Ended March, 31 2004, 2003 and 2002

This commentary discusses the consolidated audited accounts of the Company and its Subsidiaries for the last three full financial years (as set out in Section 11).

Net sales

Over the last two years, revenue has grown at a Cumulative Average Growth Rate (CAGR) of 2.9%, from SR 775.3 million to SR 820.7 million. In the same period, net income has increased from SR 56.7 million to SR 101.8 million. However, in 2003/04 net income includes extraordinary profit of SR 12.3 million from the sale of the Riyadh factory.

Over this period the sales mix has been maintained with UHT milk being the largest contributor to sales with 65%. Tomato paste and ice cream contribute 9% each. Juices, cheese and foodstuff account for 7%, 5% and 5% respectively.

Export sales have been steady at around SR 32 million and a marginal increase is expected in the future.

Other than ice cream products, the Company's products are not generally subject to seasonal influences. Ice cream products account for approximately 8% of the Company's annual turnover. In order to minimise seasonal factors during the winter months (resulting in reduced sales), the ice cream division implements sales and production plans designed to minimise such seasonal factors.

SADAFCO's consolidated net sales for the last three completed financial years and the six months to September 30, 2004 are as follows:

Year ended	SADAFCO only	Combined consolidated subsidiaries	Total
30 September 2004	410,807	15,985	426,792
31 March 2004	794,002	26,747	820,749
31 March 2003	768,828	26,492	795,320
31 March 2002	752,626	22,671	775,297

(All figures in SR 000's)

Cost of sales

Prime costs (representing cost of raw and packing material) and manufacturing expenses account for 73% and 27% of the cost of sales respectively for the financial year ended in March 31, 2004. SMP is the key raw material and its price is subject to variations in the international commodities market.

Cost of sales ratio (expressed as a percentage of net sales) has fluctuated from 63% in 2001-02 to 57% in 2003-04 mainly due to SMP average prices falling from US\$ 2,241 per metric ton during 2001-02 compared to US\$ 1,553 per metric ton in 2003-04. The impact of the decrease in prices was due to the Company's purchasing arrangements for SMP and savings in manufacturing costs of approximately SR 7 million from the consolidation of manufacturing facilities as described in Section 5 of this Prospectus.

Gross margin

The increase in sales combined with the decrease in cost of sales (arising from reduction in SMP prices) has resulted in the improvement of gross margin from 36.7% in 2001-02, 39.7% in 2002-03 to 42.8% in 2003-04.

Selling and distribution expenses

Selling and distribution costs (as a percentage of net sales) increased from 22% in 2001-02 to 24% in 2002-03 and 25% in 2003-04. Employee costs and advertising and promotion together represented 68% of selling and distribution costs for the financial year ended March 31, 2004. Increases in advertising and marketing expenses are likely to be necessary to support an increasing range of products.

General and administrative expenses

General and administrative expenses have remained relatively constant at between 6.2% and 6.6% of net sales for the three year period under consideration.

Investment and other income

Investment income represents income/loss from unconsolidated investments. Other income arises mainly from the sale of property, plant and equipment, exchange losses and others. During 2003-04 "other income" included a profit of SR 12.3 million from the sale of the Riyadh factory.

Financing charges

Due to a lower cost of borrowing and improved management of working capital during the past three years, financing charges have decreased from SR 7.2 million in 2001-02 to SR 4.8 million in 2003-04.

Zakat

Zakat is provided for in accordance with the regulations of the Department of Zakat and Income Tax. The Zakat return for 2002 has been agreed with the Department of Zakat and Income Tax and agreement on the years ended 31 March 2003 and 2004 is expected in the near future. The Company has filed an appeal with Preliminary Appeal Committee regarding the treatment of certain items for the assessments relating to the years 1997 to 2001 (inclusive).

Dividends

Historical declared dividends per share over the last three years are as follows: SR 9.2 per Share for 2001-02, SR 6.8 per Share for 2002-03 and SR 12.3 per Share for 2003-04.

Cash flow

The primary source of the Company's liquidity is cash generated from operations and is used to fund mainly operating expenses, capital expenditures and dividend payments.

Net cash from operations has been relatively steady with a minor decrease in 2002-03 arising from the advantageous restructuring of payment terms with certain major suppliers.

Net cash used for investing activities has increased mainly due to additional capital expenditures incurred in relation to the consolidation of the manufacturing facilities as described in Section 5 of this Prospectus.

Net cash used in financing activities has remained steady without any major variations in the three year period under consideration.

8.2. The Six Month Period to September 30, 2004

There has been no significant variation in any of the ratios or analysis set out above for the six month period ended in September 30, 2004, with the exception of the following:

- Actual net sales have grown by SR10.9 million for the first six months of the 2004-2005 financial year over the corresponding six-month period for the 2003-2004 financial year. The Company anticipates improved sales from the second half of the current financial year from its core product division, which may compensate for short falls against the juice division in order to meet whole year budget;
- The cost of goods sold has increased relative to previous years due to the higher cost of raw materials; and
- Selling and distribution costs have increased, partly due to a rise in expenses relating to the marketing and placing of products in supermarkets and hypermarkets.

Please refer to the financial statements set out in Section 11 below for further detail.

9. SUMMARY OF THE BY-LAWS

9.1. Ordinary Shares

The Shares of the Company shall be nominal and the Shares may not be issued at less than their nominal value. However, they may be issued at more than this value and if so; the difference in value shall be added to the statutory reserve even if it has reached its maximum. A Share is indivisible so that if several persons own it, then they should select one of them to represent them in the exercise of the rights pertaining to the Share and such persons shall be jointly liable for the obligations arising out of the ownership of the Share.

9.2. Rights of the Holders of Ordinary Shares

Each fully paid ordinary Share gives its holder the right to the following (in each case to the extent provided for in the Companies Law and the Company's By-Laws):

- Receive dividends (i.e. profits declared for distribution);
- Upon the Company's liquidation, to receive a proportionate amount of the Company's surplus (after the fulfillment of the Company's obligations); and
- Attend and participate in meetings of the General Assembly of the Company's shareholders and vote, with each Share having one vote.

Any change in the rights attaching to ordinary Shares requires a change in the Company's By-Laws.

9.3. Increase in Share Capital

It shall be permissible by a resolution passed by the Extraordinary General Meeting after ascertaining the economic viability and obtaining the approval of the competent authorities to decide to increase the share capital of the Company once or several times by issuing new shares in the same nominal value of the original Shares provided that the original share capital should have been paid-up in full and subject to the provisions of the Companies Regulations.

The resolution shall determine the method of increasing the share capital and the original shareholders shall have the priority to subscribe for the new cash shares.

The new shares shall be distributed among the original shareholders, who have requested to subscribe, in proportion to the original shares they own, provided that what they obtain shall not exceed the number of the new shares they requested and the balance of the new shares shall be distributed among the original shareholders who have requested more than their shares in proportion to the original shares they own provided that what they obtain shall not exceed the number of the new shares they have requested. The remaining shares shall then be placed for public subscription.

9.4. Preference Shares

The Company currently has no issued or outstanding preferred shares.

The Company's By-Laws provide that the Company may issue preferred shares pursuant to a resolution of the General Assembly of shareholders. The preferred shares are not counted in calculating the quorum required for a General Assembly of shareholders.

9.5. General Meetings of Shareholders

The Company's By-Laws provide that with the exception of matters falling within the functions of the Extraordinary Meeting, the Ordinary General Meeting shall be vested with all the functions connected with the Company. The Ordinary General Meeting shall be held at least once annually within the six months following the end of the Company's fiscal year. Other Ordinary General Meetings may be convened whenever the need arises.

The Extraordinary General Meeting has the power to amend the Company's statutes, with the exception of provisions it is not allowed to amend under the law. Pursuant to Article 85 of the Companies Law, the Extraordinary General Assembly shall be competent to alter the Company's By-Laws except in respect of certain specified matters.

The Extraordinary General Meeting shall be empowered to pass resolutions with respect to matters that fall within the functions of the Ordinary General meeting, on the same terms and conditions for the latter meeting.

9.6. Notice and Participation

The Company's By-Laws provide that shareholders' General Meetings shall be convened upon the invitation of the Chairman. The Board of Directors shall convene the Ordinary General Meeting if so required by the auditor or by a number of shareholders representing at least 5% of the capital. The call for convening of the General Meeting shall be published in the Official Gazette and in a daily newspaper circulating in the city where the Company's Head Office is located at least twenty five (25) days before the date set for the meeting. The call shall include an agenda. However, as long as the shares are nominal, it shall be sufficient to send the invitation on the said time by registered letter. A copy of the invitation and the agenda shall be sent to the Companies General Department in the Ministry of Commerce and Industry within the period stipulated for publication.

The General Meeting shall be held in the city of the location of the Company's head office and any shareholder holding at least twenty shares shall have the right to attend a General Assembly. A shareholder may appoint another shareholder (other than a member of the Company's board of directors or Company employee) in writing to attend a General Assembly Meeting.

The Company's By-Laws provide that the Ordinary General Meeting shall be held at least once a year within the first six months following the end of the Company's financial year and that additional general assemblies may be called as and when required.

Upon the convening of the Meeting, a list shall be drawn up of the shareholders, who are present or represented, their places of residence with a statement of the number of shares they hold in person or in proxy and the votes assigned thereto. Any person with an interest therein shall have access to that list.

Every shareholder present at a general assembly shall have the right to discuss the subjects listed on the General Meeting agenda and direct questions in respect thereto to the board directors and to the auditor. The Board Directors or the auditor shall reply to the shareholders' questions to the extent that the Company's interest is not affected. If a shareholder finds the reply to his question unsatisfactory, such shareholder may revert to the Meeting, whose decision shall be decisive in this respect.

9.7. General Meeting Procedures

The Company's By-Laws provide that the Chairman of the Company's Board of Directors (or the person delegated by him in the event of his absence) shall chair the meetings of the General Meeting. The Chairman shall appoint a secretary for the meeting and a teller of votes. Minutes of the meeting shall be drawn up, which shall include the names of shareholders present or represented, the number of shares they hold in person or by proxy, the number of voters assigned thereto, the resolutions passed, the number of votes for or against the same and an adequate summary of the discussions that have taken place at the meeting. The minutes shall be regularly recorded after each meeting in a special register to be signed by the Chairman, Secretary and vote teller.

9.8. Voting Rights and Voting

Voting at an Ordinary and Extraordinary General meeting shall be computed on the basis of one vote for each share. However, no shareholder may be allowed more than 20% of the total shares of the Company, whether held in person, by proxy or both, in connection with the resolutions of the Company's Ordinary and Extraordinary General Meetings relating to the appointment or dismissal of board directors or auditors, or to the amendment of the Company's statutes. However the board directors may not vote on the meeting resolutions connected with the release of their liability for the period of management.

The resolutions of the Ordinary General Meeting shall be generally passed by the absolute majority of the Company's issued shares present or represented at a shareholders' meeting. However, resolutions at an Extraordinary General Meeting shall be passed by the majority of two-thirds of the shares represented at the meeting. However, resolutions would be valid only if passed by a majority of three quarters of the shares represented at the meeting in case of resolutions relating to the following:

- an increase or decrease of the Company's share capital;
- an extension of the term of the Company;
- the dissolution of the Company prior to the expiration of its term; and
- the merger or consolidation of the Company with another company or establishment.

9.9. Quorum

The Ordinary General Meeting shall be valid only if attended by shareholders representing at least half the share capital. If such quorum is not attained at the meeting, an invitation should be sent out for a second meeting to be held within thirty days following the previous meeting. The call shall be published in accordance with the Company's By-Laws. The second meeting shall be valid regardless of the number of votes represented thereat.

The Extraordinary General Meeting shall be valid only if attended by shareholders representing at least half the share capital. If such quorum is not attained at the meeting, an invitation should be sent out for a second meeting to be held within thirty days following the previous meeting. The call shall be published in accordance with the Company's By-Laws. The second meeting shall be valid if attended by a number of shareholders representing at least one quarter of the share capital.

9.10. Transfer of shares

The procedures for share transfers are set out in the Company's By-Laws.

9.11. Dissolution of the Company

If the Company's losses total three-fourths of its share capital, then the Board of Directors shall call an Extraordinary General Assembly to consider whether the Company shall continue to exist or whether it shall be dissolved before its term specified in its By-Laws. In either case, the resolution shall be published in Official Gazette.

In the event of the Extraordinary General Assembly resolving to dissolve the Company before the stipulated term, it shall upon the recommendation of the Board of Directors, determine the manner of dissolution and shall appoint one or more liquidators and determine their powers and remuneration.

The power of the Board of Directors shall end with the expiry of the Company. However, the Board of Directors shall keep managing the Company until the liquidator has been appointed and the Company's staff shall remain to the extent they do not conflict with those of the liquidators.

The Company could also be dissolved upon completion of its term or pursuant to a decision of the Board of Grievances. Upon its dissolution, the Company would enter into liquidation, but would remain as a legal entity to the extent required in connection with the winding-up of its affairs and until liquidation is completed. Liquidation would be effected by one or more liquidators.

The Company's General Assembly of shareholders would appoint or replace liquidators and would determine their powers and remuneration. The power of the Board of Directors shall cease upon the winding up of the Company and the appointment of the liquidators. However, if the Board of Grievances were to order the dissolution of the Company, the Board of Grievances (and not the Company's General Assembly of shareholders) would have the power to appoint or replace liquidators and would determine their powers and remuneration. Holders of ordinary shares would receive any surplus of assets of the Company after the payment of all of its liabilities.

10. LEGAL INFORMATION

10.1. Date and Details of Incorporation

The Danish Saudi Dairy Company was incorporated as a Saudi limited liability company in 1976. The Company's name was changed to its current name in 1993. In 2000, SADAFCO was converted to a closed joint stock company by way of Ministry of Commerce Ministerial Orders 1886 and 2019. The Company is registered under Commercial Registration 40300009917.

10.2. Shareholders

SADAFCO's current shareholders, prior to completion of the Offer, are as follows:

Name	Number of fully paid Ordinary Shares of SR 50 each	Percentage of Shares prior to Offer	Number of Shares following successful completion of Offer
United Industries Company	3,055,000	47.00	2,607,020
United Gulf Bank	846,225	13.02	200
Al Samh for Trade Co Ltd	671,955	10.34	671,955
Faick Hussein Mohd. Al Saleh	468,925	7.21	200
Abdul Aziz Mubarak Al Hassawi	227,500	3.50	227,500
Sadaqah Mohammed Saleh Sheikh	121,550	1.87	71,550
Abdul Wahab Mohammed Saleh Sheikh	121,550	1.87	96,550
Abdullah Ahmed Mohammed Bagabas	95,875	1.48	95,875
Ali Ahmed Mohammed Bagabas	95,875	1.48	95,875
Al Gabas Trading Group Co. Ltd	95,875	1.48	95,875
Al Besham Trading Group Co. Ltd	67,938	1.05	60,968
KIPCO	65,000	1.00	200
Hamdan Abdullah Abdul Aziz Al Nassar	35,750	0.55	35,750
Ahmed Mohd. Hamid Al Marzouki	21,650	0.33	21,650
Osama Abid Mohd. Saleh Sheikh	58,500	0.90	47,500
Faisal Bin Saied Mohammed O Binzagr	37,500	0.58	37,500
Business Development Group Co. Ltd	37,500	0.58	30,000
Zahid Industries & Investment Co. Ltd	31,250	0.48	31,250
Mohammed Saad Abdullah Al Suhaili	30,000	0.46	30,000
Nawal Abid Mohd. Saleh Sheikh	29,250	0.45	29,250
Thuraya Abid Mohd. Saleh Sheikh	29,250	0.45	29,250
Essam Abid Mohd. Saleh Sheikh	23,400	0.36	12,400
Samir Abid Mohd. Saleh Sheikh	23,400	0.36	12,400
Mohammed Hamid Mohd. Al Marzouki	21,450	0.33	21,450
Mohd. Hassan Mohd. Al Marzouki	21,450	0.33	21,450
Mohammed Mohammed Al Marzouki	21,450	0.33	21,450
Mahmood Mahommed Al Marzouki	21,450	0.33	21,450
Abdul Moniem Rashid Al Rashid	20,000	0.31	20,000
Salah & Mussad M. Al Bassam & Co. (Holding)	18,750	0.29	18,750
Omar K. Al Essyi & Co.	18,750	0.29	18,750
Hassan A. Karim Al Qahtani Sons Co.	18,750	0.29	18,750
FAMA Holding Co. Ltd.	18,750	0.29	18,750
Sameer Mohd. Al Marzouki	12,232	0.19	12,232
Abdul Majeed A. Bahrawi	10,000	0.15	10,000
Ibrahim A. Mohammed A. Bahrawi	6,250	0.10	6,250
Total	6,500,000	100.00	4,550,000

200 Shares have been deposited at SAMBA Financial Group in the names of each of SADAFCO's seven directors as required by Saudi Arabian law. Details are as follows:

- The shareholdings of each of Mr. Ahmad Mohammed Hamid Al Marzouki and Mr. Faick Hussein Mohammed Al Saleh include 200 Shares deposited at SAMBA Financial Group.
- The shareholding of United Gulf Bank includes 200 Shares deposited at SAMBA Financial Group for Mr. Faisal Hamad Al Ayyar.
- The shareholding of United Industries Company includes 200 Shares deposited at SAMBA Financial Group for each of Mr. Essa Khalid Al Essa Al Saleh and Shaikh Hamad Sabah Al Ahmed.
- The shareholding of KIPCO includes 200 Shares deposited at SAMBA Financial Group for Mr. Abdullah Yacoob Bishara.
- The shareholding of Al Samah Trading Company Limited includes 200 Shares deposited at SAMBA Financial Group for Mr. Mohammed Ahmed Saeed Basamh.

10.3. Ownership of Shares in SADAFCO by Directors, senior executives and relatives or affiliates

Name	Position	Number of fully paid ordinary Shares of SR 50 each	Percentage of Shares prior to Offer
Ahmed Mohammed Hamid Al Marzouki	Director	21,650	0.33
Faick Hussein Mohammed Al Saleh	Director*	468,925	7.21
Faisal Hamad Al Ayyar	Director	200 (deposited with SAMBA Financial Group by United Gulf Bank in his name)	n/a
Essa Khalid AL Essa Al Saleh	Director	200 (deposited with SAMBA Financial Group by United Industries Company in his name)	n/a
Hamed Sabah Al Ahmed	Director	200 (deposited with SAMBA Financial Group by United Industries Company in his name)	n/a
Abdullah Yacoob bishara	Director	200 (deposited with SAMBA Financial Group by KIPCO in his name)	n/a
Mohammed Ahmed Saeed Basamh	Director	200 (deposited with SAMBA Financial Group by Al-Samah Trading Company in his name)	n/a
Mohammed Hamid Mohd. Al Marzouki	Related person	21,450	0.33
Mohd. Hassan Mohd. Al Marzouki	Related person	21,450	0.33
Mohammed Mohammed Al Marzouki	Related person	21,450	0.33
Mahmood Mohammed Al Marzouki	Related person	21,450	0.33
Sameer Mohd. Al Marzouki	Related person	12,232	0.19

* Mr. Al Saleh is selling shares in the Offer, and is described as a Selling Shareholder on page vii of this Prospectus.

No other directors, senior executives or any of their relatives or affiliates have any other direct or indirect interest in the Shares or debt instruments of the group.

10.4. Head Office

SADAFCO's head office is located at Al-Hamra District, Jeddah with the following postal address: P.O. Box 5043, Jeddah 21422, Saudi Arabia.

10.5. Share Capital

SADAFCO has authorized, issued and fully paid up share capital of SR 325,000,000 divided into 6,500,000 Shares of SR 50 each. There has been no change in the Company's issued share capital during the three years preceding the date of this document.

Neither the Company nor any of its Subsidiaries is subject to any option agreement which may require the issue of further shares. The Offer Shares are not subject to any option agreement.

10.6. Subsidiaries and Associates

SADAFCO's ownership in its Subsidiaries and Associates is set out below:

10.6.1. Majority Subsidiaries

Company Name	Number of Shares Held by SADAFCO	Percentage Holding (Legal Ownership)	Beneficial Ownership
Swiss Premium Foods Company SAE, Egypt	96,300	96.3%	96.3%
SADAFCO Foodstuff & Drinks Company, Egypt	87,000	58%	100%
SADAFCO Foodstuff Company LLC, UAE	150	50%	100%
SADAFCO Qatar	1,125	75%	75%
Arab Company for Animal Produce SAE, Egypt	164,752	54%	55%
SADAFCO Bahrain Company WLL, Bahrain	200	50%	100%

10.6.2. Associates

Company Name	Number of Shares Held by SADAFCO	Percentage Holding (Legal Ownership)	Beneficial Ownership
Saudi New Zealand Milk Products Company Limited, Saudi Arabia	12,750	51%	51%
SADAFCO - Jordan Foodstuff Company, Jordan	125,000	50%	50%
Egyptian Dairy and Foodstuff Company, Egypt *	353,320	98.14%	19%
F&B Venture Holding SAE, Lebanon *	13,443	74.5%	14%
Raad Stores Company K.S.C.C, Kuwait	1,200,000	2.4%	2.4%

*Beneficial Ownership” is defined in Section 12.

10.6.3. Significant Transactions Involving Shareholdings

- ***Biomatrix Investment Holding Company***

On 31 March 2001 SADAFCO sold a majority stake of its shares in two of its subsidiaries, F&B Venture Holding SAL (in Lebanon) and Egyptian Dairy & Foodstuff Company (Egypt), a straw factory and related technical know-how in Jeddah to Biomatrix Investment Holding Company, Ltd.

The sale of the shares was to carry with them 100% of the current account liabilities of each subsidiary. The purchase price of the F&B Venture Holding SAL shares was SR 42,556,553 and the purchase price of the EDAFCO shares was SR 72,323,973, both of which were payable on a deferred consideration basis. The date for payment of the SR 91.6 million outstanding consideration was recently extended by the Board. The purchase by Biomatrix is supported by a bank guarantee from United Gulf Bank, one of the Selling Shareholders. United Gulf Bank is in turn partially owned by the parent company of United Industries Company, one of the other Selling Shareholders.

- ***Joint Venture Agreement***

A Joint Venture Agreement dated 10 November 1993 provides that the Company and Milk Products Holdings (Middle East) E.C ("MPH") (a subsidiary of NZDB) set up Saudi New Zealand Milk Products Limited ("SNZMPL") as a joint venture company to establish and operate a factory for milk powder packing, cheese and butter manufacturing and manufacturing and packing other dairy products in the various locations in Saudi Arabia, to distribute those products and operate SNZMPL. Operational control of SNZMPL vests in MPH.

10.7. Properties (Excluding Subsidiaries)

List of Lands owned by SADAFCO (as at September 30, 2004)

	Net Book Value (SR)
Riyadh Depot 43	4,645,200
Medina Factory	273,901
Dammam Compound	1,875,000
Jeddah Compound	2,055,000
Makkah Depot *	1,030,000
Jeddah Regional Distribution Centre	6,377,160
Jizan Depot	750,000
Taif Depot	824,000
Riyadh Al Maroog Area	2,103,172
Buraida Depot	1,181,250
Medina Depot *	500,000
Hafoof Depot	500,000
Riyadh Regional Distribution Centre	5,224,474
TOTAL	27,339,157

Source: Company

* Owned by a nominee on behalf of SADAFCO

List of buildings located on land owned by SADAFCO (as at September, 30 2004)

	Net Book Value (SR)
Jeddah Regional Distribution Centre	21,579,773
Makkah	706,981
Taif	4,079,698
Jizan	4,522,134
Abha	208,674
Riyadh #2	4,756,210
Al-Jouf	1,957,853
Tabuk	217,504
Medina	843,676
Hafoof	2,088,418
Madina Factory	776,449
Staff Accommodation, Riyadh	218,753
Villa, Jeddah	1,496,568
Buraida	419,319
Hail	145,832
TOTAL	44,147,821

Source: Company

Additionally SADAFCO has invested in buildings at rented/leased depots, factories and Headquarters. At Cost Value, this aggregates to SR 79,786,700. As of September 30, 2004, the Net Book Value is SR 17,171,874.

10.8. Directors' and Senior Executives' Service Contracts

Both the Managing Director and the Chief Financial Officer have entered into fixed-term contracts with the Company which set out the terms of their service and their remuneration. The Managing Director's service contract expires in April 2006, and the service contract of the Chief Financial Officer expires in February 2006, having previously been renewed with the agreement of the parties.

Save as discussed above, no Director has entered into any service or employment contract with the Company or any of its Subsidiaries.

10.9. Insurance

The Company has entered into various insurance policies effecting a range of insurance coverage which the Directors believe is appropriate for the Company's business.

10.10. Intellectual property

SADAFCO's key brands are either protected by trademark registrations or are awaiting registration.

10.11. Litigation

Other than certain debt collecting proceedings (where SADAFCO is acting as the plaintiff), SADAFCO is not involved in any material litigation.

10.12. Material Contracts

The Company has entered into the following contracts which may be material:

Underwriting agreement

The Company, the Selling Shareholders and the Lead Manager (in its capacity as Underwriter) entered into an Underwriting Agreement whereby, inter alia, (i) the Company and Selling Shareholders appointed the Underwriter as its agent for the purposes of carrying out the Offer; (ii) subject to the conditions of the Underwriting Agreement, the Underwriter will procure Purchasers for the Offer Shares at the Offer Price, and to the extent that the Underwriter is unable to procure such purchasers, the Underwriter will acquire the Offer Shares at the Offer Price; (iii) the Company and Selling Shareholders have granted certain warranties and certain indemnities in favour of the Underwriter; (iv) the Underwriter may terminate the Underwriting Agreement in specified circumstances prior to Admission; and (v) in consideration of the Underwriter's services in connection with the Offer, the Company has agreed to pay the Underwriter agreed fees and expenses. (The fees and expenses payable to the Financial Advisor, Lead Manager and Underwriter upon completion of the Offer are SR 7,452,900) .

Tetra Pak

SADAFCO has agreements with Tetra Pak Middle East FZE ("TPFZE"), which is located in the UAE; and with Tetra Pak Service Limited ("TPSL"), located in Saudi Arabia. SADAFCO has purchased from TPFZE machinery installed in plants in Riyadh (now closed), Jeddah and Dammam and which is used for the packaging of various foodstuffs. SADAFCO had this machinery installed by TPSL, which also provided additional support and training. In addition, as long as this machinery is in SADAFCO's possession, SADAFCO is obliged to source all of its packaging material needs (treated paper, wrapping film, etc) from TPFZE. In particular:

- (a) Purchase and Sale Agreements - Under two purchase and sale agreements, SADAFCO purchased from TPFZE various machines for the packaging of dairy products and white milk. Until final payment is made in relation to the machines, SADAFCO is obliged to insure them and at Tetra Pak's request, name Tetra Pak as a joint insured and provide TPFZE with satisfactory evidence that such insurance is in effect. In the event of breach of an agreement by SADAFCO, Tetra Pak has the right to repurchase the machines, and to require the machines to be sold to it or any third party. SADAFCO currently retains all machines in its plants and has paid for the machines in full.
- (b) Packaging Material Supply Agreements - Two Packaging Material Supply Agreements remain in force as long as Tetra Pak packaging machines are in the possession of SADAFCO, and set out SADAFCO's obligations to purchase from TPFZE or its designated supplier (and TPFZE's obligation to supply) all packaging material required for the use and proper utilisation of Tetra Pak packaging machines.
- (c) Local Supply Agreements - Four Local Supply Agreements set out the basis on which Tetra Pak Service Ltd, a Saudi Arabian company, installs equipment purchased from Tetra Pak Middle East and supplies additional equipment, maintenance, and training to SADAFCO. The agreements relate to the machines described in the Purchase and Sale Agreements above and their installation in Riyadh, Jeddah and Dammam.

Mövenpick Licensing Agreement

SADAFCO entered a Licensing Agreement with Mövenpick Marketing & Technical Assistance Ltd on 1 July 2002. SADAFCO is licensed to produce and market a range of Mövenpick products in Saudi Arabia and Kuwait, and to use the Mövenpick trademarks and trade names. On 1 January 2003 the agreement was extended to Oman, UAE, Qatar and Bahrain and will continue in force until 31 December 2006 (and a further period of 3 years unless either party gives written notice of termination one year in advance).

10.13. Related Party Contracts

The Company has entered into the following contracts or arrangements with the Directors, CEO or CFO or any relative of theirs in relation to the Company's business:

Mohammed Saleh Sheikh Advertising Agency (Dynamics)

Mr. Mohamed Saleh Abdel Wahab owns a sole proprietorship established in Jeddah named Mohammed Saleh Sheikh Advertising Agency (Dynamics). This agency provides advertising services to SADAFCO. Mr. Mohamed Saleh Abdel Wahab Sheikh is also the Executive Manager of SADAFCO's Jeddah factory, and is the son of Mr Abdul Wahab Mohammed Saleh Sheikh, who owns 1.87% of SADAFCO prior to the Offer.

Blue Bird Travels Limited

Blue Bird Travels Limited is owned by Mr. Mohamed Saleh Abdel Wahab, Mr Ahmed Al Marzouki (the Managing Director of SADAFCO) and Mr Hamdan Abdullah Abdul Aziz Al Nassar (who owns 0.55% of SADAFCO). Blue Bird Travels Limited provides travel agency services to SADAFCO and is located at SADAFCO's premises in Jeddah.

10.14. Auditors

KPMG Al Fozan & Bannaga are the Company's auditors and have provided certain information for inclusion in this Prospectus. KPMG Al Fozan & Bannaga has consented to the use of their name in the form and context in which it appears. KPMG Al Fozan & Bannaga has no interest in SADAFCO or its Subsidiaries or Affiliates, other than the provision of certain professional services, provided on an arms length basis.

In addition, Sindi & Batterjee have also acted as the Company's statutory joint auditors but have not reviewed any of the information in this Prospectus.

10.15. Commission

No person has received any commission, brokerage fee or non-cash consideration in relation to the share capital of the Company or any of its Subsidiaries during the two years preceding the date of this Prospectus.

10.16. Continuation of Activities

Other than the ongoing voluntary liquidation of SADAFCO Foodstuff & Drinks Company, Egypt, there has not been any suspension to the operations of the Group's activities in the 12 months

preceding the date of this Prospectus. The Directors do not intend to materially change the nature of the activities of the Company and its Subsidiaries.

There has been no material adverse change in the financial or trading position of the Group in the two financial years and the current financial year up to the date of this Prospectus.

10.17. Indebtedness, Working Capital and Capitalization

A Summary statement of indebtedness as of September 30, 2004 is set out in Section 11 of this Prospectus. There has been no material change in the indebtedness of the Group, in the period from September 30, 2004 to the date of this document.

The Directors are of the opinion that, taking into consideration the Company's existing available bank facilities, the Company will have sufficient working capital for its present requirements for at least the next 12 months, from the date of publication of this prospectus.

A summary statement of capitalization as of September 30, 2004 is set out in Section 11 of this Prospectus. There has been no material change in the capitalization of the Group, in the period from September 30, 2004 to the date of this document.

10.18. Documents Available for Inspection

The following documents are available for inspection at the Company's head office during the Offer Period between 9 a.m. and 2 p.m. on each weekday other than a Thursday, Friday or public holiday:

- the Company's By-Laws;
- the contracts (or written summaries where the relevant agreement is not reduced to writing) referred to in Section 10; and
- the audited consolidated accounts of the Company and its subsidiaries for the three financial year preceding the date of this Prospectus.
- the audited interim consolidated financial statements of the Company and its subsidiaries for the six-month period ended September 30, 2004.
- any approvals issued in relation to the Offer by the Authority or the Ministry of Commerce and Industry.

11. ACCOUNTANTS' REPORT

11.1. Historic Financial Statements

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES**

**COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004, 2003 and 2002**

See next page

English translation of the official Arabic prospectus



Al Fozan & Bannaga

Certified Public Accountants

Reg. No. 46

J.C.C. No. 40418

P.O. Box 6659
Jeddah 21452
Kingdom of Saudi Arabia

2nd Floor, Jeddah Int'l. Business Center
Tower B - North J.C.C.
Off Al Amir Abdullah Street

Tel.: +966 (2) 653 4021
+966 (2) 650 4601
Fax: (2) 651 9242

The Board of Directors

Saudia Dairy and Foodstuff Company (SADAFCO) Jeddah, Saudi Arabia

We have reviewed the comparative consolidated financial statements of Saudia Dairy and Foodstuff Company ("SADAFCO" or "the Company") and its subsidiaries for the years ended March 31, 2004, 2003 and 2002 extract of which are included in the listing document. In this connection, we confirm the following:

1. Our Firm, KPMG Al Fozan & Bannaga, have acted as auditors of the Company throughout the period covered in the comparative consolidated financial statements. Our audits were conducted in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary to obtain a reasonable degree of assurance to enable us to express an opinion on the financial statements.
2. The comparative consolidated financial statements are basically presented on the basis of information reflected in the Company's statutory audited financial statements submitted for each year.
3. In our opinion, the Company's comparative consolidated financial statements, taken as a whole:
 - (a) Present fairly, on a consistent basis, the consolidated financial position of Saudia Dairy and Foodstuff Company (SADAFCO) and its subsidiaries at March 31, 2004, 2003 and 2002 and the results of its operations, cash flows and changes in shareholders equity for the years then ended are in conformity with generally accepted accounting standards appropriate to the circumstances of the Company and its subsidiaries.
 - (b) Comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the consolidated financial statements.
4. There has been no material change to the Company's structure and business during the years covered by these comparative consolidated financial statements.
5. There has been no material changes in the accounting policies which have been consistently followed by the company during the period covered by these comparative consolidated financial statements.

Abdelgadir Bannaga, PhD/FCCA
Senior Partner
License No. 22



Jeddah, November 20, 2004



SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

COMPARATIVE CONSOLIDATED BALANCE SHEET
As at March 31, 2004, 2003 and 2002

ASSETS	Note	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Current assets:				
Cash and cash equivalents	3	31,160	39,789	50,319
Accounts receivable	4	247,518	226,481	125,571
Deposits and prepayments	5	32,134	36,054	30,593
Inventories	6	<u>126,947</u>	<u>137,139</u>	<u>155,995</u>
Total current assets		<u>437,759</u>	<u>439,463</u>	<u>362,478</u>
Non-current assets:				
Accounts receivable-other	4	--	--	91,580
Long-term investments	7	38,901	37,185	31,779
Dairy livestock	8	15,866	12,812	11,702
Intangible assets	9	4,381	6,047	4,391
Property, plant and equipment	10	<u>347,757</u>	<u>331,464</u>	<u>347,549</u>
Total non-current assets		<u>406,905</u>	<u>387,508</u>	<u>487,001</u>
Total assets		<u>844,664</u>	<u>826,971</u>	<u>849,479</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Short-term bank debts	11	131,189	131,106	131,363
Accounts payable		50,969	58,810	84,647
Payable to affiliates and shareholders		3,591	5,483	2,759
Accrued liabilities		22,956	24,505	21,485
Accrued Zakat	19c	11,890	9,475	7,325
Current portion of long-term debts	12	<u>930</u>	<u>9,048</u>	<u>17,747</u>
Total current liabilities		<u>221,525</u>	<u>238,427</u>	<u>265,326</u>
Non-current liabilities:				
Employees' end of service benefits		70,015	64,271	58,822
Long-term debts	12	<u>2,181</u>	<u>2,290</u>	<u>11,903</u>
Total non-current liabilities		<u>72,196</u>	<u>66,561</u>	<u>70,725</u>
Minority interests		6,824	7,261	8,847
Shareholders' equity:				
Capital	13	325,000	325,000	325,000
Statutory reserve		99,417	89,242	81,778
Voluntary reserve		44,417	34,242	26,778
Foreign currency translation adjustments		(10,566)	(9,611)	(6,515)
Retained earnings		<u>85,851</u>	<u>75,849</u>	<u>77,540</u>
Total shareholders' equity		<u>544,119</u>	<u>514,722</u>	<u>504,581</u>
Total liabilities and shareholders' equity		<u>844,664</u>	<u>826,971</u>	<u>849,479</u>

The accompanying notes 1 through 23 form an integral part of these financial statements.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME

For the years ended March 31, 2004, 2003 and 2002

	<u>Note</u>	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Net sales		820,749	795,320	775,297
Cost of sales		<u>(469,368)</u>	<u>(479,192)</u>	<u>(490,507)</u>
Gross profit		351,381	316,128	284,790
Expenses:				
Selling and distribution	14	(201,395)	(188,857)	(171,125)
General and administrative	15	<u>(53,717)</u>	<u>(49,354)</u>	<u>(50,782)</u>
Total expenses		<u>(255,112)</u>	<u>(238,211)</u>	<u>(221,907)</u>
Operating income		96,269	77,917	62,883
Investment income – net	7e	2,841	2,746	2,723
Other income – net	16	13,747	6,172	2,481
Financial charges – net	17	<u>(4,819)</u>	<u>(6,275)</u>	<u>(7,191)</u>
Net income before minority interests and Zakat		108,038	80,560	60,896
Minority interests		<u>28</u>	<u>24</u>	<u>805</u>
Net income before Zakat		108,066	80,584	61,701
Zakat charge for the year	19	<u>(6,314)</u>	<u>(5,947)</u>	<u>(5,000)</u>
Net income for the year		<u>101,752</u>	<u>74,637</u>	<u>56,701</u>

The accompanying notes 1 through 23 form an integral part of these financial statements.

SAUDIA DAIRY AND FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
COMPARATIVE CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended March 31, 2004, 2003 and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(SR 000)	(SR 000)	(SR 000)
Cashflows from operating activities:			
Net income	101,752	74,637	56,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	57,639	63,601	68,292
Amortization	1,667	1,994	3,494
Net change in fair values of dairy livestock	(3,550)	(1,474)	--
Minority interests	(28)	(24)	(805)
Gain on disposal of property, plant and equipment	(12,539)	(5,103)	(1,692)
Share in (gains) losses of unconsolidated subsidiary and affiliates – net of adjustments	(30)	(3,147)	1,316
Changes in operating assets and liabilities:			
(Increase) in accounts receivable	(6,299)	(25,399)	(1,075)
Decrease (increase) in prepayments and deposits	3,928	(5,481)	(5,901)
Decrease (increase) in inventories	10,515	17,953	(5,098)
(Decrease) increase in accounts payable	(7,397)	(24,861)	18,438
(Decrease) increase in payable to affiliates and shareholders	(1,505)	2,850	(1,654)
Increase (decrease) in accrued liabilities & Zakat	889	5,241	(5,277)
Increase in employees' end of service benefits	5,744	5,449	3,795
Total adjustments	<u>49,034</u>	<u>31,599</u>	<u>73,833</u>
Net cash provided by operating activities	<u>150,786</u>	<u>106,236</u>	<u>130,534</u>
Cashflows from investing activities:			
Net movement in bank deposits	--	--	20,188
Net cash movement in long-term investments	(2,547)	--	200
Sale proceeds of assets and investments sold to Biomatrix	--	13,088	13,088
Net cash movement in dairy livestock	(335)	(1,701)	--
Sale proceeds of property, plant and equipment	6,700	7,916	5,090
Purchase of property, plant and equipment	(84,421)	(54,529)	(65,418)
Payment for intangible assets	--	(3,650)	--
Net cash (used in) investing activities	<u>(80,603)</u>	<u>(38,876)</u>	<u>(26,852)</u>
Cashflows from financing activities:			
Net movement in short-term and long-term debts	(7,024)	(15,205)	(26,131)
Dividend paid	(70,000)	(60,000)	(70,000)
Board of Directors' remuneration paid	(1,400)	(1,400)	--
Net cash (used in) financing activities	<u>(78,424)</u>	<u>(76,605)</u>	<u>(96,131)</u>
Net (decrease) increase in cash and cash equivalents	(8,241)	(9,245)	7,551
Effect of exchange rate fluctuations on cash and cash equivalents	(388)	(1,285)	--
Cash and cash equivalents at beginning of year	<u>39,789</u>	<u>50,319</u>	<u>42,768</u>
Cash and cash equivalents at end of year	<u>31,160</u>	<u>39,789</u>	<u>50,319</u>

The accompanying notes 1 through 23 form an integral part of these financial statements.

SAUDIA DAIRY AND FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

**COMPARATIVE CONSOLIDATED STATEMENT OF CHANGES IN
SHAREHOLDERS' EQUITY**

For the years ended March 31, 2004, 2003 and 2002

	<u>Capital</u> (SR000)	<u>Statutory reserve</u> (SR000)	<u>Voluntary reserve</u> (SR000)	<u>Foreign currency translation adjustments</u> (SR000)	<u>Retained earnings</u> (SR000)	<u>Total</u> (SR000)
Balance at March 31, 2001	325,000	76,108	21,108	(2,886)	103,579	522,909
Net income for the year	--	--	--	--	56,701	56,701
Transfer to reserves	--	5,670	5,670	--	(11,340)	--
Board of Directors' remuneration (Note 21b)	--	--	--	--	(1,400)	(1,400)
Dividend paid	--	--	--	--	(70,000)	(70,000)
Foreign currency translation adjustments	--	--	--	(3,629)	--	(3,629)
Balance at March 31, 2002	<u>325,000</u>	<u>81,778</u>	<u>26,778</u>	<u>(6,515)</u>	<u>77,540</u>	<u>504,581</u>
Net income for the year	--	--	--	--	74,637	74,637
Transfer to reserves	--	7,464	7,464	--	(14,928)	--
Board of Directors' remuneration (Note 21b)	--	--	--	--	(1,400)	(1,400)
Dividend paid	--	--	--	--	(60,000)	(60,000)
Foreign currency translation adjustments	--	--	--	(3,096)	--	(3,096)
Balance at March 31, 2003	<u>325,000</u>	<u>89,242</u>	<u>34,242</u>	<u>(9,611)</u>	<u>75,849</u>	<u>514,722</u>
Net income for the year	--	--	--	--	101,752	101,752
Transfer to reserves	--	10,175	10,175	--	(20,350)	--
Board of Directors' remuneration (Note 21b)	--	--	--	--	(1,400)	(1,400)
Dividend paid	--	--	--	--	(70,000)	(70,000)
Foreign currency translation adjustments	--	--	--	(955)	--	(955)
Balance at March 31, 2004	<u>325,000</u>	<u>99,417</u>	<u>44,417</u>	<u>(10,566)</u>	<u>85,851</u>	<u>544,119</u>

The accompanying notes 1 through 23 form an integral part of these financial statements.

SAUDIA DAIRY AND FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

NOTES TO COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2004, 2003 and 2002

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudia Dairy and Foodstuff Company (SADAFCO) (the Company) is a closed joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030009917. The Company and its subsidiaries (listed in Note 2a), collectively described as SADAFCO Group in these financial statements, are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in Saudi Arabia and certain Gulf and Arab countries. One of the subsidiaries in Egypt is involved in dairy farming business.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia. The following significant accounting policies have been applied consistently:

(a) Basis of consolidation - The consolidated financial statements include the financial statements of SADAFCO and the following entities controlled by SADAFCO:
SADAFCO Beneficial Interest

• Swiss Premium Foods Company SAE, Egypt	96.3%
• SADAFCO Foodstuff & Drinks Company, Egypt	100%
• SADAFCO Foodstuff Company LLC, UAE	100%
• SADAFCO Qatar	75%
• Arab Company for Animal Produce SAE, Egypt	55%
• Sadafco Bahrain Company, WLL, Bahrain	100%

All intra-group balances and transactions arising from transactions between SADAFCO and its subsidiaries and those arising between the subsidiaries are eliminated in preparing the consolidated financial statements.

Minority interests are computed as an aggregate of their equity interests shown in the balance sheet and share of net earnings for the year shown in the statement of income.

(b) Accounting conventions - The consolidated financial statements, expressed in thousands of Saudi Arabian Riyals, are prepared under the historical cost basis (except for investment available for sales and dairy livestock which are stated at their fair values), using the accrual basis of accounting and the going concern concept.

(c) Revenue recognition - Sales are recognized when products are delivered or shipped to customers.

(d) Inventories - Inventories are valued at the lower of cost (determined principally by using the standard cost method but adjusted to approximate value determined by the use of weighted average method) and net realizable value. Cost of finished goods include material cost, direct labour and appropriate manufacturing overhead. The cost of other inventories includes expenditure incurred in acquiring and bringing them to their existing location and condition.

(e) Preoperating expenses - Preoperating expenses include all costs and expenses incurred in various projects in their pre-operating stages and are being amortized over a period of five years from the date of commencement of commercial production.

(f) Deferred costs - Deferred costs represent new product development costs and the amount spent on relocation of the production facilities from Medina to other regions to achieve economic benefits in the operations. These costs are being amortized over a period of five years.

(g) Goodwill - Goodwill represents amounts arising on acquisition of Snack Food Factory and ownership interests in Swiss Premium Foods Company SAE, Egypt and Arab Company for Animal Produce SAE, Egypt (subsidiaries) and is being amortized over a period of ten years, using straight-line method.

(h) Long-term investments - Investment in Saudi New Zealand Milk Products Company Limited (jointly controlled entity with 51% ownership interest) and other entities in which SADAFCO does not have control, but has the ability to exercise significant influence over operating and financial policies, are accounted for by equity method. Other investments are classified as investments available for sale as they do not meet the criteria of securities held to maturity or held for trade. These are initially recorded at cost and then re-measured and stated in the balance sheet at fair value. In the absence of an exchange market, the cost is considered to be the fair value for these investments. Any decline in value of investments, considered by the management to be other than temporary, is charged to the statement of income. Realized gain or loss on sale of investments is taken to the statement of income.

(i) Dairy livestock - Livestocks are measured at their fair value. The fair value of livestock is determined according to market prices of livestock of similar age, breed and generic merit based on study by independent technical specialists. Any difference between the fair value of livestock, at beginning and end of the year, is included in the cost of sales relating to dairy farm products.

(j) Property, plant and equipment - Property, plant and equipment are recorded at cost. Depreciation is provided by the straight-line method to write off the cost of each asset over its estimated useful life, using the following annual percentage rates:

	%
Buildings	2.5-10
Machinery and equipment	10-33
Vehicles and trailers	15-25
Furniture, fixtures and office equipment	10-25

No depreciation is charged on land and capital work-in-progress.

(k) Zakat and income tax - Zakat computed in accordance with Saudi Arabian Fiscal Regulations, is accrued and charged to the statement of income. Presently, the overseas subsidiaries are exempt from income tax.

(l) Employees' end of service benefits - Employees' end of service benefits, calculated in accordance with labour regulations, are accrued currently.

(m) Expenses - Selling and distribution expenses are those arising from SADAFCO Group's efforts underlying their marketing, selling and distribution functions. All other expenses are classified as general and administrative expenses.

(n) Operating lease payments - Payments under operating leases are recognized in the statement income on a straight-line basis over the terms of the lease.

(o) Foreign currency transactions - Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the respective transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Saudi Arabian Riyals at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of income. Exchange difference, arising from the translation of foreign currency financial statements of subsidiaries are allocated to the Company and minority shareholders in proportion to their ownership interests in the investee companies. SADAFCO's share in exchange difference is recorded as a separate component of shareholders' equity, whereas amounts relating to the minority shareholders are included under minority interests in the balance sheet.

(p) Cash and cash equivalents - For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, current accounts with banks and short term bank deposits having maturity within 90 days.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31 comprise the following:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Cash and cheques in hand	7,496	5,507	6,707
Balance with banks in current accounts	22,653	28,190	27,668
Short term bank deposits	<u>1,011</u>	<u>6,092</u>	<u>15,944</u>
	<u>31,160</u>	<u>39,789</u>	<u>50,319</u>

4. ACCOUNTS RECEIVABLE

(a) Accounts receivable at March 31 comprise the following:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Trade:			
Affiliates	4,624	5,766	4,685
Other	116,267	105,581	86,467
Total trade receivables	120,891	111,347	91,152
Less: Provision for doubtful accounts	<u>(6,498)</u>	<u>(5,102)</u>	<u>(3,784)</u>
Net trade receivables	114,393	106,245	87,368
Affiliates	<u>8,522</u>	<u>13,606</u>	<u>6,426</u>
Advances and other receivables (Note 4c)	124,603	106,630	123,357
	<u>247,518</u>	<u>226,481</u>	<u>217,151</u>
Less: Non-current portion of accounts receivables (Note 4c)	<u>--</u>	<u>--</u>	<u>(91,580)</u>
	<u>247,518</u>	<u>226,481</u>	<u>125,571</u>

(b) Accounts receivable-trade at March 31, 2004 include balances amounting to SR 9.9 million (2003: SR 8.2 million; 2002: SR 6.7 million) which have been long outstanding. Management is making recovery efforts and has filed law suits for the recovery of some balances. Management believes that provision for doubtful accounts is sufficient to cover any possible loss in the ultimate realization of the long outstanding balances.

(c) Advances and other receivables at March 31, 2004 include a sum of SR 91,580 thousand (2003: SR 85,277 thousand; 2002: SR 104,668 thousand) due from Biomatrix Investment Holding Company Limited, British Virgin Island (Biomatrix) arising from the sale of SADAFCO's partial interest in overseas subsidiary and affiliate and sale of assets and transfer of technical know-how relating to straw factory to Biomatrix.

The movement in Biomatrix balance during the year ended March 31, is analysed as under:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Balance at beginning of the year	85,277	104,668	117,756
Instalment received during the year	--	(13,088)	(13,088)
Adjustment for SADAFCO subscription in additional share capital of F&B Venture Holding SAE, Lebanon:			
Fully Paid by Biomatrix	--	(6,303)	--
Amount settled by SADAFCO	<u>6,303</u>	<u>--</u>	<u>--</u>
Balance at end of the year	<u>91,580</u>	<u>85,277</u>	<u>104,668</u>

Under the terms of agreement with Biomatrix, the outstanding amount at March 31 is as follows :

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Amount recoverable within one year included under current assets	91,580	85,277	13,088
Amount recoverable after one year included under non-current assets	<u>--</u>	<u>--</u>	<u>91,580</u>
	<u>91,580</u>	<u>85,277</u>	<u>104,668</u>

Under the terms of agreements with Biomatrix, the entire outstanding amount at March 31, 2004 was due for payment at March 31, 2004. This payment date has been extended to September 30, 2004. This outstanding balance is secured by an unconditional and irrevocable bank guarantee from an affiliate bank provided by Biomatrix. The title documents of the shares have been retained by SADAFCO and shall be transferred to Biomatrix after the amount is fully recovered.

5. DEPOSITS AND PREPAYMENTS

Deposits and prepayments at March 31, 2004 include a sum of SR 16,050 thousand (2003: SR 13,303 thousand; 2002: SR 13,458 thousand) representing margin deposits with the banks against guarantees/standby letters of credit issued by SADAFCO's bankers relating to a consolidated subsidiary and some of its affiliates. Margin deposits with a bank at March 31, 2004 amounting to SR Nil (2003: SR 11,689 thousand; 2002: SR 12,750 thousand) bear commission at prevailing market rates.

6. INVENTORIES

Inventories at March 31 comprise the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(SR 000)	(SR 000)	(SR 000)
Raw and packing materials	52,553	63,409	63,173
Work-in-progress	1,578	980	916
Finished goods	36,800	41,963	45,776
Spare parts, supplies and other items	15,344	16,863	22,189
Goods-in-transit	20,672	13,924	23,941
	<u>126,947</u>	<u>137,139</u>	<u>155,995</u>

7. LONG-TERM INVESTMENTS

a) Long-term investments at March 31 comprise the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(SR 000)	(SR 000)	(SR 000)
Investments in unconsolidated subsidiary and affiliate	29,077	29,889	26,743
Other investments available for sale	10,917	8,389	6,129
	<u>39,994</u>	<u>38,278</u>	<u>32,872</u>
Less: Provision for permanent diminution in value of investment	<u>(1,093)</u>	<u>(1,093)</u>	<u>(1,093)</u>
	<u>38,901</u>	<u>37,185</u>	<u>31,779</u>

b) Investments in unconsolidated subsidiary and affiliate at March 31 are in respect of the following companies:

	<u>Ownership interest</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Saudi New Zealand Milk Products Co. Ltd., Saudi Arabia	51%	51%	51%
SADAFCO – Jordan Foodstuff Company, Jordan	50%	50%	50%

Investment in Saudi New Zealand Milk Products Co. Ltd. (SNZMP) at March 31, 2004, 2003 and 2002 includes a sum of SR 7.7 million representing interest-free loan provided to the SNZMP. SADAFCO has no intention to seek its repayment during the twelve months following the balance sheet date.

c) Other investments at March 31, include investments in the following operating companies:

	<u>Ownership interest</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Egyptian Dairy and Foodstuff Company, Egypt	19%	19%	19%
F&B Venture Holding SAE, Lebanon	14.2%	14.2%	9.5%
Raad Stores Company K.S.C.C., Kuwait	2.4%	--	--

d) SADAFCO's ownership interest in some of the investments is held through parties nominated by the Company.

e) Investment income – net for the year ended March 31 comprise the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(SR 000)	(SR 000)	(SR 000)
Saudi New Zealand Milk Products Company Limited, Saudi Arabia	2,860	2,860	2,860
Other	<u>(19)</u>	<u>(114)</u>	<u>(137)</u>
	<u>2,841</u>	<u>2,746</u>	<u>2,723</u>

8. DAIRY LIVESTOCK

The movement in dairy livestock values (relating to Arab Company for Animal Produce SAE, Egypt (a consolidated subsidiary) during the year ended March 31, is analysed as under:

	<u>2004</u>	<u>2003</u>
	(SR 000)	(SR 000)
Balance at beginning of the year	12,812	11,702
Increase due to purchases and other costs	1,757	5,007
Decrease due to sales	(1,422)	(3,306)
Adjustment arising from changes in fair value attributable to price and physical changes	3,550	1,474
Effect of fluctuations in foreign exchange rates	<u>(831)</u>	<u>(2,065)</u>
Balance at end of the year	<u>15,866</u>	<u>12,812</u>

9. INTANGIBLE ASSETS

Intangible assets at March 31 comprise the following:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(SR 000)	(SR 000)	(SR 000)
Pre-operating expenses:			
Total amount	4,411	4,411	4,411
Amortization to date	<u>(4,411)</u>	<u>(4,284)</u>	<u>(3,560)</u>
	<u>--</u>	<u>127</u>	<u>851</u>
Deferred costs:			
Total amount	4,362	4,362	6,576
Amortization to date	<u>(1,421)</u>	<u>(549)</u>	<u>(5,811)</u>
	<u>2,941</u>	<u>3,813</u>	<u>765</u>
Goodwill:			
Total amount	6,086	6,086	6,086
Amortization to date	<u>(4,646)</u>	<u>(3,979)</u>	<u>(3,311)</u>
	<u>1,440</u>	<u>2,107</u>	<u>2,775</u>
	<u>4,381</u>	<u>6,047</u>	<u>4,391</u>

10. PROPERTY, PLANT AND EQUIPMENT

(a) The movement in property, plant and equipment for the year ended March 31, 2004 is analysed as follows:

	Land and Buildings (SR000)	Machinery and Equipment (SR000)	Vehicles and Trailers (SR000)	and Office Equipment (SR000)	Furniture, fixtures Capital Work in Progress (SR000)	Total (SR000)
Cost:						
Balance at beginning of year	235,216	525,018	147,925	51,143	10,335	969,637
Additions	6,331	16,107	12,672	1,739	47,572	84,421
Disposals	(27,565)	(25,790)	(8,445)	(1,765)	--	(63,565)
Reclassification	1,720	10,637	--	(1,325)	(11,032)	--
Effect of fluctuations in foreign exchange rates	(793)	(916)	(162)	(127)	(18)	(2,016)
Balance at end of year	<u>214,909</u>	<u>525,056</u>	<u>151,990</u>	<u>49,665</u>	<u>46,857</u>	<u>988,477</u>
Accumulated depreciation:						
Balance at beginning of year	124,935	365,895	110,831	36,512	--	638,173
Charge for the year	7,835	33,107	12,688	4,009	--	57,639
Reclassification	--	455	--	(455)	--	--
Disposals	(21,724)	(23,159)	(7,829)	(1,692)	--	(54,404)
Effect of fluctuations in foreign exchange rates	(161)	(448)	(67)	(12)	--	(688)
Balance at end of year	<u>110,885</u>	<u>375,850</u>	<u>115,623</u>	<u>38,362</u>	<u>--</u>	<u>640,720</u>
Net book value:						
At March 31, 2004	<u>104,024</u>	<u>149,206</u>	<u>36,367</u>	<u>11,303</u>	<u>46,857</u>	<u>347,757</u>
At March 31, 2003	<u>110,281</u>	<u>159,123</u>	<u>37,094</u>	<u>14,631</u>	<u>10,335</u>	<u>331,464</u>
At March 31, 2002	<u>116,940</u>	<u>169,187</u>	<u>27,924</u>	<u>12,539</u>	<u>20,959</u>	<u>347,549</u>

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) During the year 2002-2003, the Board of Executive Directors approved upgrade of certain manufacturing facilities and relocation of Riyadh and Madina manufacturing facilities to Jeddah and Damman with the objective to achieve economic benefits in the operation. By virtue of that decision, the building and certain equipment in Riyadh region has been sold during the year ended March 31,2004 and relocation of remaining assets to other region is in progress (Note 16b). Based on a study, management has made appropriate adjustment for all assets identified as obsolete.

(c) Capital work-in-progress mainly represents machinery and equipment costs incurred for the upgrade of manufacturing facilities.

(d) Depreciation charge for the year ended March 31, has been allocated as follows:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Cost of sales	29,158	35,082	40,520
Selling and distribution expenses	25,751	25,775	24,591
General and administrative expenses	<u>2,730</u>	<u>2,744</u>	<u>3,181</u>
	<u>57,639</u>	<u>63,601</u>	<u>68,292</u>

(e) The ownership interest of the Company in certain freehold land is through Saudi shareholders of the Company.

11. SHORT-TERM BANK DEBTS

Short-term bank debts represent amounts outstanding on overdraft and short term loan basis and Islamic mode of Murabaha financing facilities with certain commercial and Islamic banks. Murabaha financing is at agreed mark-ups, whereas other borrowings bear commissions at prevailing commercial rates. The facilities are evidenced by promissory notes signed by the Company. The bank facility agreements contain covenants which, among other things, require that certain financial ratios be maintained.

12. LONG-TERM DEBTS

Total long-term debts at March 31 comprise the following:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Saudi Industrial Development Fund	--	8,285	25,580
Bank loan	<u>3,111</u>	<u>3,053</u>	<u>4,070</u>
	<u>3,111</u>	<u>11,338</u>	<u>29,650</u>

The above debts have been presented in the financial statements as follows:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Current portion shown under current liabilities:			
Saudi Industrial Development Fund	--	8,285	17,295
Bank loan			
	<u>930</u>	<u>763</u>	<u>452</u>
	<u>930</u>	<u>9,048</u>	<u>17,747</u>
Long-term portion shown under non-current liabilities:			
Saudi Industrial Development Fund	--	--	8,285
Bank loan			
	<u>2,181</u>	<u>2,290</u>	<u>3,618</u>
	<u>2,181</u>	<u>2,290</u>	<u>11,903</u>
Total long-term debts	<u>3,111</u>	<u>11,338</u>	<u>29,650</u>

(a) Saudi Industrial Development Fund (SIDF) Loan

Loan from SIDF was fully repaid during the year 2003-2004 in accordance with terms of agreement.

(b) Bank loan

Medium term bank loan obtained from a commercial bank by Arab Company for Animal Produce, SAE, Egypt (a consolidated subsidiary), is secured by a guarantee issued by one of SADAFCO's bank. The loan bears commission at prevailing commercial rate.

13. SHAREHOLDERS' EQUITY

(a) Capital

The capital of the Company is SR 325,000,000 divided into 6,500,000 share of SR 50 each which is fully paid.

(b) Statutory reserve

In accordance with Article 125 of the Saudi Arabian Regulations for Companies, the Company is required to transfer at least ten percent of net income to a statutory reserve until such reserve equals fifty percent of paid-up capital. This reserve is not available for distribution.

(c) Voluntary reserve

The shareholders have decided to create a voluntary reserve by transfer of ten percent of the annual income to the reserve. The utilization of this reserve is on the discretion of the shareholders.

(d) Foreign currency translation adjustments

Foreign currency translation adjustments comprise of SADAFCO's shares in foreign exchange differences arising from the translation of the foreign currency financial statements of the consolidated subsidiaries.

(e) Dividend

After the balance sheet date, the Board of Directors proposed distribution of dividend for the years ended March 31, 2004 amounting to SR 80 million (2003: SR 70 million; 2002: SR 60 million) which has not been provided for in the books.

14. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses for the year ended March 31 comprise following.

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Employee costs	84,816	79,203	72,559
Advertising and sales promotion	52,941	47,987	42,191
Depreciation	25,751	25,775	24,591
Vehicle running and maintenance costs	13,000	11,638	11,722
Insurance	4,955	4,294	4,161
Rent	2,911	3,090	2,873
Communication	1,582	1,705	1,309
Other	15,439	15,165	11,719
	<u>201,395</u>	<u>188,857</u>	<u>171,125</u>

15. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended March 31 comprise following:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Employee costs	34,803	30,544	31,552
Chairman, Managing Director and Audit Committee remuneration (Note 21-b)	2,710	2,850	2,875
Depreciation	2,730	2,744	3,181
Communication	1,634	1,831	1,772
Repairs and maintenance	953	1,070	768
Insurance	620	549	872
Rent	703	882	721
Other	9,564	8,884	9,041
	<u>53,717</u>	<u>49,354</u>	<u>50,782</u>

16. OTHER INCOME – NET

(a) Other income – net for the year ended March 31, comprise the following:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Profit from sale of property, plant and equipment (Note 16-b)	12,539	5,103	1,692
Exchange gain (loss) – net	(892)	(1,031)	(1,001)
Miscellaneous	<u>2,100</u>	<u>2,100</u>	<u>1,790</u>
	<u>13,747</u>	<u>6,172</u>	<u>2,481</u>

(b) In accordance with the Board's decision in 2002-2003, (Note 10b) the Riyadh Factory building along with certain items of plant and equipment having book value of SR 7.72 million were sold during the year ended March 31, 2004 for SR 20 million which resulted in a profit of SR 12.28 million.

17. FINANCIAL CHARGES – NET

Financial charges for the year ended March 31, 2004 are net of interest income amounting to SR 138 thousand (2003: SR 432 thousand; 2002: SR 920 thousand).

18. OPERATING LEASES

SADAFCO Group has certain warehouse and sales depots under operating leases extending for a period of more than one year. Most of these leases are for an initial period of five years with an option to renew the leases after that date. Lease payments are negotiated annually to reflect market rentals.

Operating lease rental obligations at March 31, 2004 are payable as follows:

	<u>(SR 000)</u>
Not later than one year	771
Later than one year but not later than five years	1,640
Later than five years	<u>210</u>
	<u>2,621</u>

19. ZAKAT

(a) Charge for the year

Zakat charge for the year ended March 31, comprise the following:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Relating to SADAFCO	5,800	5,600	5,000
Relating to investment in Saudi New Zealand Milk Products Company Limited	<u>514</u> 6,314	<u>347</u> 5,947	<u>--</u> 5,000

- (b) Zakat charge for the year ended March 31 relating to SADAFCO has been calculated on Zakat base, the significant components of which are as follow:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Capital	325,000	325,000	325,000
Adjusted net income	113,197	84,523	63,482
Adjusted reserves and provisions at beginning of the year	268,988	249,005	259,117
Long term debts	--	8,285	25,580
Deduction for property, plant and equipment	(323,193)	(304,392)	(322,666)
Deduction for investments	(66,811)	(64,217)	(58,485)
Deduction for dividend paid	(70,000)	(60,000)	(70,000)
Other deductions	(15,073)	(19,112)	(16,754)

(c) Accrued Zakat

The movement in accrued Zakat during the year ended March 31, is as follows:

	<u>2004</u> (SR 000)	<u>2003</u> (SR 000)	<u>2002</u> (SR 000)
Balance at beginning of the year	9,475	7,325	5,000
Payments during the year	(3,899)	(3,797)	(2,675)
Accrual for the year	<u>6,314</u>	<u>5,947</u>	<u>5,000</u>
Balance at end of the year	<u>11,890</u>	<u>9,475</u>	<u>7,325</u>

(d) Status of zakat assessments at March 31, 2004

The status of zakat assessments at March 31, 2004 is as follows:

SADAFCO's zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) for the year ended up to December 31, 1996. Final assessments for subsequent financial periods up to and including March 31, 2002 have been received with total additional Zakat liability of SR 8,862 thousand. The nature of major items disallowed or added to Zakat base by DZIT are non-current receivables and investment related balances. SADAFCO has appealed against such assessments.

No adjustment has been made for the shortfall in the provision amounting to SR 3,285 thousand, as management believes that the ultimate appeal decisions for the disallowed items shall be in the favour of the Company.

SADAFCO has obtained final Zakat certificate up to the year ended March 31, 2002 by providing a bank guarantee to the DZIT for the amount demanded by DZIT as additional Zakat liability. The assessment for the year ended March 31, 2003 is under review by the DZIT.

20. COMMITMENTS AND CONTINGENCIES

- (a) At March 31, 2004, SADAFCO Group had outstanding commitments for future capital expenditures and investments amounting to SR 21.1 million (2003: SR 31.5 million; 2002: SR 9.1 million).
- (b) SADAFCO at March 31, 2004 has a contingent liability of SR 54.4 million (2003: SR 54.3 million; 2002: SR 55.6 million) in respect of guarantees issued by the Company's bankers on behalf of its consolidated subsidiaries and affiliates. Against the bank guarantees issued on behalf of one consolidated subsidiary, at March 31, 2004 a sum of SR 5.5 million has been counter-guaranteed by other shareholders of the consolidated subsidiary having a total interest of 38.3%. Also, at March 31, 2004, SADAFCO's bank has issued a bank guarantee of SR 3.8 million (2003: SR 3.8 million; 2002: SR 3.8 million) in favour of a supplier as security to their outstanding payable.

21. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) Related party transactions mainly represent purchases and sales of goods and services which are undertaken at mutually agreed terms and approved by management from the following entities:
- Saudi New Zealand Milk Products Company Limited, Saudi Arabia (unconsolidated subsidiary)
 - United Industries Company, Kuwait and its affiliates (affiliate)
 - Mohammad Saleh Sheikh Establishment, Saudi Arabia (affiliate)
 - Blue Bird Travels Limited, Saudi Arabia (affiliate)
 - Lebanon Fruit Juice Company, Lebanon (affiliate)
 - Saudi Pearl Insurance Company Limited, E.C. (affiliate)

Related party transactions for the year ended March 31 and balances arising therefrom are described as under:

Transaction With	Nature of Transaction	Amount of transaction During the Year (SR 000)			Closing Balance Receivable / (Payable) (SR 000)		
		2004	2003	2002	2004	2003	2002
Affiliates	Sale of products	35,082	30,116	30,924	4,629	5,766	4,685
Unconsolidated subsidiary and affiliate	Purchase of goods and services	77,593	73,834	72,327	(3,551)	(3,480)	(3,895)
Affiliates	Advance payment account	--	--	--	1,578	4,046	3,128
Affiliates	Current account				6,939	5,516	3,297
Affiliates	Current account	--	--	--	(39)	(2,003)	--
Affiliate	Sale of real estate investment	--	4,044	--	--	4,044	--

(b) Board of Directors' remuneration calculated in accordance with Article 35-4 of the Company's Articles of Association are considered as appropriation shown in the statement of changes in shareholders' equity. Remunerations of Chairman and Managing Director for their services in day-to-day operations and of the Audit Committee members for the year ended March 31, 2004 amounting to SR 2,710 thousand (2003: SR 2,850 thousand; 2002: SR 2,875 thousand) are charged to expenses included under general and administrative expenses.

22. CASH FLOW MOVEMENT

For the purpose of cash flow statement the analysis of non-cash movement in some of the balance sheet items for the year ended March 31 is as follows:

22. CASH FLOW MOVEMENT (continued)

(a) Effect of fluctuations in foreign exchange rates:

	<i>(Net Decrease)</i>	
	<u>2004</u>	<u>2003</u>
	(SR 000)	(SR 000)
Cash and cash equivalents	388	1,285
Accounts receivable	262	722
Deposits and prepayments	8	20
Inventories	323	903
Dairy livestock	831	2,065
Property, plant and equipment	1,328	4,200
Accounts payable	246	977
Payable to affiliates and shareholders	387	126
Accrued liabilities	23	71
Short-term and long-term bank debts	1,120	3,364
Minority interests	409	1,562

(b) Other non-cash items:

Amount receivable for real estate investments sold during the year adjusted against account receivables – affiliates	--	4,044
Additional investments during the year adjusted against accounts receivable–other	--	6,303

23. COMPARATIVE FIGURES

Certain 2003 and 2002 figures have been reclassified to conform with presentation adopted for the year ended March 31, 2004.

11.2 Interim Financial Statements

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company) AND SUBSIDIARIES**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Six-Month Period Ended September 30, 2004
with
AUDITORS' REPORT**

English translation of the official Arabic prospectus



Al Fozan & Bannaga

Certified Public Accountants

Reg. No. 46
J.C.C. No. 40418

P.O. Box 6659
Jeddah 21452
Kingdom of Saudi Arabia

2nd Floor, Jeddah Int'l. Business Center
Tower B - North J.C.C.
Off Al Amir Abdullah Street

Tel.: +966 (2) 653 4021
+966 (2) 650 4601
Fax: (2) 651 9242

AUDITORS' REPORT

The Board of Directors

Saudia Dairy and Foodstuff Company (SADAFCO) Jeddah, Saudi Arabia

We have audited the accompanying interim consolidated balance sheet of Saudia Dairy and Foodstuff Company (SADAFCO (the Company) and its subsidiaries as at September 30, 2004, and the related interim consolidated statements of income, cash flows and changes in shareholders' equity for the six-month period then ended and the accompanying notes 1 through 9 which form an integral part of these interim consolidated financial statements. These interim consolidated financial statements have been prepared by the Company in accordance with the Saudi accounting standard for interim financial information issued by the Saudi Organization for Certified Public Accountants (SOCPA) and submitted to us, together with all the information and explanations which we required. Our audit was conducted in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary to obtain a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

In our opinion, the interim consolidated financial statements, taken as a whole, present fairly the interim consolidated financial position of Saudia Dairy and Foodstuff Company (SADAFCO) and its subsidiaries at September 30, 2004 and the results of its operations, cash flows and changes in shareholders' equity for the six-month period then ended in conformity with generally accepted accounting standards appropriate to the circumstances of the Company and its subsidiaries.

We draw attention to the fact that we were not engaged to audit the interim consolidated financial statements for the comparative period ended September 30, 2003. Accordingly, we do not express any opinion on the fairness of the comparative period figures and other information presented in the accompanying consolidated interim financial statements.

Abdelgadir Bannaga, PhD/FCCA
Senior Partner
License No. 22



Jeddah, January 2, 2005



SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
INTERIM CONSOLIDATED BALANCE SHEET
As at September 30, 2004

	Note	(Audited) 2004 (SR 000)	(Un-audited) 2003 (SR 000)
ASSETS			
Current assets:			
Cash and cash equivalents		19,964	33,643
Accounts receivable			
Trade		117,612	113,931
Affiliates		19,135	12,374
Other receivables	3	117,288	118,736
Deposits and prepayments		40,078	40,061
Inventories		125,325	118,377
Total current assets		<u>439,402</u>	<u>437,122</u>
Non-current assets:			
Long term investments		37,821	41,143
Dairy livestock		17,673	14,393
Intangible assets		3,611	5,193
Property, plant and equipment	4	364,125	325,747
Total non-current assets		<u>423,230</u>	<u>386,476</u>
Total assets		<u>862,632</u>	<u>823,598</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Short term bank debts	5	178,085	179,015
Accounts payable		54,016	22,752
Payable to affiliates and shareholders		7,290	5,902
Accrued liabilities		23,904	32,142
Accrued Zakat		11,508	9,129
Current portion of long-term debts		802	3,233
Total current liabilities		<u>275,605</u>	<u>252,173</u>
Non-current liabilities:			
Employees' end of service benefits		72,620	67,120
Long term debts	6	1,815	2,817
Total non-current liabilities		<u>74,435</u>	<u>69,937</u>
Minority interests		6,712	6,641
Shareholders' equity:			
Capital		325,000	325,000
Statutory reserve		103,635	94,371
Voluntary reserve		48,635	39,371
Foreign currency translation adjustments		(10,289)	(10,076)
Retained earnings		38,899	46,181
Total shareholders' equity		<u>505,880</u>	<u>494,847</u>
Total liabilities and shareholders' equity		<u>862,632</u>	<u>823,598</u>

The accompanying notes 1 to 9 form an integral part of these interim financial statements.

SAUDIA DAIRY AND FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF INCOME

For the six-month period April 1, 2004 to September 30, 2004

	(Audited) 2004 <u>(SR 000)</u>	(Un-audited) 2003 <u>(SR 000)</u>
Net sales	426,792	415,880
Cost of sales	<u>(248,429)</u>	<u>(237,858)</u>
Gross profit	178,363	178,022
Expenses:		
Selling and distribution	(106,758)	(97,166)
General and administrative	<u>(26,549)</u>	<u>(25,907)</u>
Total expenses	<u>(133,307)</u>	<u>123,073</u>
Operating income	45,056	54,949
Investment income – net	1,475	1,430
Other income – net	1,978	(385)
Financial charges – net	<u>(2,869)</u>	<u>(1,738)</u>
Net income before minority interests and Zakat	45,640	54,256
Minority interests	<u>46</u>	<u>191</u>
Net income before Zakat	45,686	54,447
Zakat charge for the period	<u>(3,502)</u>	<u>(3,157)</u>
Net income for the period	<u>42,184</u>	<u>51,290</u>
Earnings per share	<u>6.49</u>	<u>7.89</u>

The accompanying notes 1 to 9 form an integral part of these interim financial statements.

SAUDIA DAIRY AND FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
For the six-month period April 1, 2004 to September 30, 2004

	(Audited)	(Un-audited)
	2004	2003
	(SR 000)	(SR 000)
Cash flows from Operating activities:		
Net income for the period	42,184	51,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	26,461	28,757
Amortization	770	855
Net change in fair values of dairy stock	(2,542)	--
Gain on disposal of property, plant and equipment	(1,380)	(64)
Share in (earnings) of unconsolidated subsidiaries and affiliates net of dividend received	1,580	(1,430)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(6,517)	(18,560)
(Increase) in prepayments and deposits	(7,944)	(4,007)
Decrease in inventories	1,622	18,761
Increase (decrease) in accounts payable	3,047	(36,058)
Increase in payable to affiliates and shareholders	3,699	418
(Decrease) increase in accrued liabilities and Zakat	(134)	6,592
Increase in employees' end of service benefits	2,605	2,849
Total adjustments	21,267	(1,887)
Net cash provided by operating activities	63,451	49,403
Cash flows from Investing activities:		
Movement in long-term investments	(500)	(2,528)
Sale proceeds of property, plant and equipment	1,920	1,984
Net cash movement in dairy livestock	735	(1,581)
Addition to property and equipment	(43,369)	(24,960)
Net cash (used in) investing activities	(41,214)	(27,085)
Cash flows from Financing activities:		
Net movement in short term and long term debts	46,402	42,620
Dividend paid	(80,000)	(70,000)
Net movement in minority interest	(112)	(619)
Net cash (used in) financing activities	(33,710)	(27,999)
Net (decrease) in cash and cash equivalents	(11,473)	(5,681)
Effect of exchange rate fluctuations	277	(465)
Cash and cash equivalents at beginning of period	31,160	39,789
Cash and cash equivalents at end of period	19,964	33,643

The accompanying notes 1 to 9 form an integral part of these interim financial statements.

SAUDIA DAIRY AND FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

**INTERIM CONSOLIDATED STATEMENT OF
CHANGES IN SHAREHOLDERS' EQUITY**

For the six-month period April 1, 2004 to September 30, 2004

	<u>Capital</u> (SR000)	<u>Statutory reserve</u> (SR000)	<u>Voluntary reserve</u> (SR000)	<u>Foreign currency translation adjustments</u> (SR000)	<u>Retained earnings</u> (SR000)	<u>Total</u> (SR000)
Balance at March 31, 2003	325,000	89,242	34,242	(9,611)	75,849	514,722
Un-audited:						
Net income for the six-month period	-	-	-	-	51,290	51,290
Transfer to reserves	-	5,129	5,129	-	(10,258)	-
Board of Directors' remuneration	-	-	-	-	(700)	(700)
Dividend paid	-	-	-	-	(70,000)	(70,000)
Foreign currency translation adjustments	-	-	-	(465)	-	(465)
Balance at Sept. 30, 2003	<u>325,000</u>	<u>94,371</u>	<u>39,371</u>	<u>(10,076)</u>	<u>46,181</u>	<u>494,847</u>
Audited:						
Balance at March 31, 2004	325,000	99,417	44,417	(10,566)	85,851	544,119
Net income for the six-month period	-	-	-	-	42,184	42,184
Transfer to reserves	-	4,218	4,218	-	(8,436)	-
Board of Directors' remuneration	-	-	-	-	(700)	(700)
Dividend paid	-	-	-	-	(80,000)	(80,000)
Foreign currency translation adjustments	-	-	-	277	-	277
Balance at Sept. 30, 2004	<u>325,000</u>	<u>103,635</u>	<u>48,635</u>	<u>(10,289)</u>	<u>38,899</u>	<u>505,880</u>

The accompanying notes 1 to 9 form an integral part of these interim financial statements.

SAUDIA DAIRY AND FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

Saudia Dairy and Foodstuff Company (“SADAFCO” or “the Company”) is a closed joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030009917. The Company and its subsidiaries (listed in Note 2a), collectively described as SADAFCO Group in these financial statements, are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in Saudi Arabia and certain Gulf and Arab countries. One of the subsidiaries in Egypt is involved in dairy farming business.

On September 18, 2004, the Board of Executive Directors resolved to list SADAFCO on the Saudi Stock Market and necessary legal formalities in that respect are in progress.

The consolidated financial statements cover the six-month period ended September 30, 2004. The results of operations for the interim period may not be a fair indication of the results of operation for the full year.

There is no significant impact of seasonal changes in SADAFCO Group activities.

2. SIGNIFICANT ACCOUNTING POLICIES

SADAFCO follows the accounting standards issued by the Saudi Organization for Certified Public Accountants (SOCPA). The interim consolidated financial statements have been prepared in accordance with Saudi Accounting Standard for interim financial information issued by SOCPA. The accounting policies adopted by the Company for the preparation of the interim consolidated financial statements are consistent with those used for the preparation of the annual consolidated financial statements. The significant accounting policies adopted by SADAFCO are summarized as follows:

(a) Basis of consolidation - The consolidated interim condensed financial statements include the financial statements of SADAFCO and the following entities controlled by SADAFCO:

	SADAFCO <u>Beneficial Interest</u>
• Swiss Premium Foods Company SAE, Egypt	96.3%
• SADAFCO Foodstuff & Drinks Company, Egypt (under-liquidation)	100%
• SADAFCO Foodstuff Company LLC, UAE	100%
• SADAFCO Qatar	75%
• Arab Company for Animal Produce SAE, Egypt	55%
• Sadafco Bahrain Company, WLL, Bahrain	100%

All intra-group balances and transactions arising from transactions between SADAFCO and its subsidiaries and those arising between the subsidiaries are eliminated in preparing the consolidated financial statements.

Minority interests are computed as an aggregate of their equity interests shown in the balance sheet and share of net earnings for the year shown in the statement of income.

(b) Accounting conventions – The interim consolidated financial statements, expressed in thousands of Saudi Arabian Riyals, are prepared under the historical cost basis (except for investment available for sales and dairy livestock which are stated at their fair values), using the accrual basis of accounting and the going concern concept.

(c) Revenue recognition – Sales are recognized when products are delivered or shipped to customers.

(d) Inventories – Inventories are valued at the lower of cost (determined principally by using the standard cost method but adjusted to approximate value determined by the use of weighted average method) and net realizable value. Cost of finished goods include material cost, direct labour and appropriate manufacturing overhead. The cost of other inventories includes expenditure incurred in acquiring and bringing them to their existing location and condition.

(e) Intangible assets – Pre-operating expenses include all costs and expenses incurred in various projects in their pre-operating stages and are being amortized over a period of five years from the date of commencement of commercial production.

Deferred costs represent new product development costs and the amount spent on relocation of the production facilities from Medina to other regions to achieve economic benefits in the operations. These costs are being amortized over a period of five years.

Goodwill represents amounts arising on acquisition of Snack Food Factory and ownership interests in Swiss Premium Foods Company SAE, Egypt and Arab Company for Animal Produce SAE, Egypt (subsidiaries) and is being amortized over a period of ten years, using straight-line method.

(f) Long-term investments – Investments in jointly controlled entity (with 51% ownership interest) and other entities in which SADAFCO does not have control, but has the ability to exercise significant influence over operating and financial policies, are accounted for by equity method. Other investments are classified as investments available for sale as they do not meet the criteria of securities held to maturity or held for trade. These are initially recorded at cost and then re-measured and stated in the balance sheet at fair value. In the absence of an exchange market, the cost is considered to be the fair value for these investments. Any decline in value of investments, considered by the management to be other than temporary, is charged to the statement of income. Realized gain or loss on sale of investments is taken to the statement of income.

(g) Dairy livestock – Livestock are measured at their fair value. The fair value of livestock is determined according to market prices of livestock of similar age, breed and generic merit based on study by independent technical specialists. Any difference between the fair value of livestock, at beginning and end of the financial period, is included in the cost of sales relating to dairy farm products.

(h) Property, plant and equipment - Property, plant and equipment are recorded at cost. Depreciation is provided by the straight-line method to write off the cost of each asset over its estimated useful life, using the following annual percentage rates:

	%
Buildings	2.5-10
Machinery and equipment	10-33
Vehicles and trailers	15-25
Furniture, fixtures and office equipment	10-25

No depreciation is charged on land and capital work-in-progress.

(i) Zakat and income tax – Zakat, based on projected annual financial statements, is computed in accordance with Saudi Arabian Fiscal Regulations. The share of each interim period of Zakat expense is determined on time proportion basis and charged to the related period. Presently, the overseas subsidiaries are exempt from income tax.

(j) Employees' end of service benefits - Employees' end of service benefits, calculated in accordance with labour regulations, are accrued currently.

(k) Expenses – Selling and distribution expenses are those arising from SADAFCO Group's efforts underlying their marketing, selling and distribution functions. Manufacturing expenses are included in the cost of sales. All other expenses are classified as general and administrative expenses. Expenses for the period are charged to the related period. The annual value of administrative and marketing expenses related to more than one period is estimated based on budget. The share of each interim period of such expenses is determined on a time proportion basis and charged to the related period.

(l) Operating lease payments – Payments under operating leases are recognized in the statement income on a straight-line basis over the terms of the lease.

(m) Foreign currency transactions – Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the respective transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Saudi Arabian Riyals at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the statement of income. Exchange difference, arising from the translation of foreign currency financial statements of subsidiaries are allocated to the Company and minority shareholders in proportion to their ownership interests in the investee companies. SADAFCO's share in exchange difference is recorded as a separate component of shareholders' equity, whereas amounts relating to the minority shareholders are included under minority interests in the balance sheet.

(n) Cash and cash equivalents – For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, current accounts with banks and short term bank deposits having maturity within 90 days.

3. ACCOUNTS RECEIVABLE- OTHERS

Accounts receivable – others at September 30, 2004 include a sum of SR 91,580 thousand (2003: SR 85,276 thousand) due from Biomatrix Investment Holding Company Limited, British Virgin Island (Biomatrix) arising from the sale of SADAFCO's partial interest in Egyptian Dairy and

Foodstuff Company, Egypt (a subsidiary) and F&B Venture Holding SAE, Lebanon (an affiliate) and sale of assets and transfer of technical know-how relating to straw factory to Biomatrix. Under the original terms of agreements with Biomatrix, the entire outstanding amount was due for payment at March 31, 2004. This payment date has now been extended to June 30, 2005.

This outstanding balance is secured by an unconditional and irrevocable bank guarantee from an affiliate bank provided by Biomatrix. The title documents of the shares have been retained by SADAFCO and shall be transferred to Biomatrix after the amount is fully recovered.

4. PROPERTY, PLANT AND EQUIPMENT

- (a) During the year 2002-2003, the Board of Executive Directors approved upgrade of certain manufacturing facilities and relocation of Riyadh and Madina manufacturing facilities to Jeddah and Dammam with the objective to achieve economic benefits in the operation. By virtue of that decision, the building and certain equipment in Riyadh region has been sold and relocation of remaining assets to other region is in progress. Based on a study, management has made appropriate adjustment for all assets identified as obsolete.
- (b) The ownership interest of the Company in certain freehold land is through Saudi shareholders of the Company.

5. SHORT TERM BANK DEBTS

Short-term bank debts represent amounts outstanding on overdraft and short term loan basis and Islamic mode of Murabaha financing facilities with certain commercial and Islamic banks. Murabaha financing is at agreed mark-ups, whereas other borrowings bear commissions at prevailing commercial rates. The facilities are evidenced by promissory notes signed by the Company. The bank facility agreements contain covenants which, among other things, require that certain financial ratios be maintained.

6. LONG TERM DEBTS

Total long-term debts at September 30, comprise the following:

	<u>2004</u>	<u>2003</u>
	(SR 000)	(SR 000)
Saudi Industrial Development Fund	--	2,500
Bank loan	<u>2,617</u>	<u>3,550</u>
	<u>2,617</u>	<u>6,050</u>

(a) Saudi Industrial Development Fund (SIDF) Loan

Loan from SIDF was fully repaid during the year 2003-2004 in accordance with terms of agreement.

(b) Bank loan

Medium term bank loan obtained from a commercial bank by Arab Company for Animal Produce, SAE, Egypt (a consolidated subsidiary), is secured by a guarantee issued by one of SADAFCO's bank. The loan bears commission at prevailing commercial rate.

7. OPERATING LEASES

SADAFCO Group has certain warehouse and sales depots under operating leases extending for a period of more than one year. Most of these leases are for an initial period of five years with an option to renew the leases after that date. Lease payments are negotiated annually to reflect market rentals.

SADAFCO's obligation at September 30, 2004 for operating lease rentals are payable as follows: (SR 000)

	(SR 000)
Not later than one year	289
Later than one year but not later than five years	1,360
Later than five years	<u>350</u>
	<u>1,999</u>

8. COMMITMENTS AND CONTINGENCIES

- (a) At September 30, 2004, SADAFCO Group had outstanding commitments for future capital expenditures and investments amounting to SR 6.8 million (2003: SR 4 million).
- (b) SADAFCO at September 30, 2004 has a contingent liability of SR 46.8 million (2003: SR 54.5 million) in respect of guarantees issued by the Company's bankers on behalf of its consolidated subsidiaries and affiliates. Also, at September 30, 2004, SADAFCO's bank has issued a bank guarantee of SR 3.75 million (2003: SR 3.75 million) in favour of a supplier as security to their outstanding payable.

(c) Status of zakat assessments

SADAFCO's Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) for the year ended up to December 31, 1996. Final assessments for subsequent financial periods up to and including March 31, 2002 have been received with total additional Zakat liability of SR 8.9 million. The nature of major items disallowed or added to Zakat base by DZIT are non-current receivables and investment related balances. SADAFCO has appealed against such assessments. No adjustment has been made for the shortfall in the provision amounting to SR 3.3 million, as management believes that the ultimate appeal decisions for the disallowed items shall be in the favour of the Company.

SADAFCO has obtained final Zakat certificate up to the year ended March 31, 2002 by providing a bank guarantee of SR 5.6 million representing Zakat on the disallowed item under appeal to the DZIT.

9. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) Related party transactions mainly represent purchases and sales of goods and services which are undertaken at mutually agreed terms and approved by management . Such transactions for the six-month period ended September 30 are as follows :

Nature of transaction	<u>2004</u>	<u>2003</u>
	<i>SR(000)</i>	<i>SR(000)</i>
Purchase of goods and services	50,579	48,300
Sale of products	16,500	18,100

Accounts receivable-Affiliates at September 30, 2004 also include current account balances aggregating SR 9,983 thousand representing short-term financing to certain affiliates.

- (b) Board of Directors' remuneration for six-months interim period ended September 30, 2004 calculated in accordance with Article 35-4 of the Company's Articles of Association are considered as appropriation shown in the statement of changes in shareholders' equity . Remunerations of Chairman and Managing Director for their services in day-to-day operations and of the Audit Committee members for the six-month period ended September 30, 2004 amounting to SR1.4 million (2003: SR 1.6 million) are charged to expenses included under general and administrative expenses.

11.3. Statement Of Indebtedness

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF INDEBTEDNESS
As at September 30, 2004**

English translation of the official Arabic prospectus



Al Fozan & Bannaga

Certified Public Accountants

Reg. No. 46
J.C.C. No. 40418

P.O. Box 6659
Jeddah 21452
Kingdom of Saudi Arabia

2nd Floor, Jeddah Int'l. Business Center
Tower B - North J.C.C.
Off Al Amir Abdullah Street

Tel.: +966 (2) 653 4021
+966 (2) 650 4601
Fax: (2) 651 9242

November 20, 2004

The Board of Directors
Saudia Dairy and Foodstuff Company (SADAFCO)
Jeddah, Saudi Arabia

CONSOLIDATED STATEMENT OF INDEBTEDNESS AS AT SEPTEMBER 30, 2004

Dear Sirs:

Upon your request and in accordance with the terms of reference stated in our proposal dated November 3, 2004, we have performed the procedures agreed with you (and enumerated in Appendix A of the above-mentioned proposal) with respect to reporting on certain financial information to be included in the prospectus dated December 1, 2004 (the "Prospectus") as required by Capital Market Authority (CMA) for SADAFCO's listing.

Our engagement was undertaken in accordance with the generally accepted auditing standards in respect of agreed upon procedures engagements, as issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

In accordance with the terms of the aforementioned engagement letter, we have performed the agreed upon procedures to report on the attached consolidated statements of indebtedness prepared by SADAFCO's management as at September 30, 2004.

Based on the performance of the procedures enumerated in Appendix A, our findings thereof are:

1. The consolidated statement of indebtedness as at September 30, 2004 is based on the consolidated interim financial statements for the six months ended September 30, 2004 audited by us and in agreement with the books and records of the company as at that date.
2. The consolidated statement of indebtedness, which is prepared by SADAFCO management, showed a total indebtedness of SR 180 million of which 178 million is short-term debt. Also, the statement showed that SADAFCO has a contingent liability towards third parties of SR 57 million in respect of guarantees issued by the company for running its business and on behalf of its subsidiaries and affiliates.

In addition, SADAFCO has a contingent liability of SR 3.3 million additional Zakat assessment against which SADAFCO has filed an appeal and SADAFCO's management believes that the ultimate decision will be in their favor.

3. We have placed reliance on representation from SADAFCO management that SADAFCO consolidated has had no further borrowing, contingencies or other form of indebtedness other than what is stated in the attached indebtedness statement.





Al Fozan & Bannaga

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The procedures we have performed were limited in nature and extent to those, which you determined, best fit for your informational needs. Furthermore, such procedures do not constitute an audit or a review in accordance with the generally accepted auditing standards issued by SOCPA, therefore we do not express an opinion or make any form of representation of the sufficiency of the procedures we performed for your informational needs. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and is only for the information of the Company. This report and the enclosed statement of indebtedness are for your use in the Prospectus, and should not be used for any other purpose or to be distributed to any other parties without our prior written consent.

Yours faithfully,

Abdelgadir Bannaga, PhD/FCCA
Senior Partner
License No. 22



SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INDEBTEDNESS
AS AT SEPTEMBER 30, 2004

	<i>Note</i>	<u>SR (000)</u>
<i>Borrowing</i>		
Short term bank debts	3	177,733
Long term bank debts	4	<u>2,617</u>
Total borrowings		<u>180,350</u>
<i>Guarantees and contingencies</i>		
Bank guarantees	5	56,095
Corporate guarantees	6	524
Contingencies	7	<u>3,300</u>
		<u>59,919</u>

The accompanying notes 1 through 7 form an integral part of the consolidated statement of indebtedness.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENT OF INDEBTEDNESS
AS AT SEPTEMBER 30, 2004

1. GENERAL

(a) Organization and principle activities

Saudia Dairy and Foodstuff Company (SADAFCO) (the Company) is a closed joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030009917. The Company and its subsidiaries, collectively described as SADAFCO are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in Saudi Arabia and certain Gulf and Arab countries. One of the subsidiaries in Egypt is involved in dairy farming business.

(b) Basis of consolidation

The consolidated statement of indebtedness include SADAFCO and the following entities controlled by SADAFCO:

	SADAFCO Beneficial Interest
{ Swiss Premium Foods Company SAE, Egypt	96.3%
{ SADAFCO Foodstuff & Drinks Company, Egypt	100%
{ SADAFCO Foodstuff Company LLC, UAE	100%
{ SADAFCO Qatar	75%
{ Arab Company for Animal Produce SAE, Egypt	55%
{ SADAFCO Bahrain Company, WLL, Bahrain	100%

2. BASIS OF PREPARATION

The statement of indebtedness has been prepared in accordance with the generally accepted accounting principles and in accordance with the requirements of Saudi Capital Market listing rules.

3. SHORT TERM BANK DEBTS

Short-term bank debts as at September 30, 2004 represent the following.

	<i>SR (000)</i>
Overdraft	536
Short term loans	<u>177,197</u>
	<u>177,733</u>

Security

All short term bank debts are supported by bank loan agreement and secured by order notes/promissory note or by a letter of guarantee provided by SADAFCO for its subsidiaries and are in compliance with certain financial covenants.

4. LONG TERM BANK DEBT

Long term bank debt at September 30, 2004 represents loan obtained from Commercial International Bank by a consolidated subsidiary in Egypt and is secured by a loan agreement and a letter of guarantee provided by SADAFCO.

5. BANK GUARANTEES

SADAFCO has a contingent liability in respect of guarantees issued by the company's bankers on behalf of its subsidiaries and affiliates which as at September 30, 2004 comprise the following:

Beneficiary	Amount <i>SR (000)</i>	Purpose
Presidency of Civil Aviation	500	Blue Bird Travel Limited (affiliate) • <i>License requirement</i>
Saudi Arabian Airlines	50	Blue Bird Travel Limited (affiliate) • <i>To maintain a stock of airline tickets</i>
Yousef Bin Ahmed Kanoo	100	Blue Bird Travel Limited (affiliate) • <i>To maintain a stock of airline tickets</i>
HSBC – Egypt	31,875	Edafco and Swiss Premium SAE Egypt (an affiliate and a subsidiary) • <i>To obtain finance</i>
Commercial International Bank – Egypt	14,250	Arab Company for Animal Produce SAE – Egypt (subsidiary) • <i>To obtain finance</i>
Department of Zakat and Income Tax (DZIT)	5,570	Additional Zakat assessment • <i>To obtain Zakat certificate</i>
Al Ahram Beverage (supplier)	<u>3,750</u>	Supply of finished products
	<u>56,095</u>	

6. CORPORATE GUARANTEES

At September 30, 2004 SADAFCO has the following corporate guarantee:

Kuwaiti Jordanian Bank	<u>524</u>	SADAFCO – Jordan
		• <i>To obtain finance</i>
	<u>524</u>	

7. CONTINGENCIES

4. SADAFCO

	<i>SR (000)</i>
Additional Zakat assessment not accrued by the Company	<u>3,300</u>

5. Subsidiaries

Saudi New Zealand Milk Product Company (SNZMP) jointly controlled entity with SADAFCO 51% ownership interest. During 2003, SNZMP determined that certain of its trading activities have been outside the object clause of its Articles of Association and its Foreign Investment License. However, during 2004 such activities were discontinued. The Company has established a provision for potential liability based on advice received from its lawyers. However, the actual financial consequences arising from this matter are to be determined by the relevant authorities and cannot be fully ascertained at this time.

**PROPOSAL FOR PROFESSIONAL SERVICES
ACCOUNTING REQUIREMENTS UNDER CMA FOR SADAFCO LISTING**

Statement of indebtedness

Agreed upon procedures to be performed with respect to Consolidated Statement of Indebtedness referred to in item 3.6 of our scope of work.

1. Obtain a statement of indebtedness from SADAFCO management as of September 30, 2004 providing the following information:
 - a) The total amount of any debt instruments of the company issued and outstanding, and authorized or otherwise created but un-issued, and term loans, distinguishing between guaranteed, unguaranteed, secured (whether the pledge is provided by SADAFCO or its subsidiaries or by third parties) and unsecured loans or an appropriate negative statement;
 - b) The total amount of all other borrowing or indebtedness of the company including bank overdrafts, liabilities under acceptances (other than normal trade bills) acceptance credits or hire purchase commitments, distinguishing between guaranteed, unguaranteed, secured and unsecured borrowing and debt;
 - c) All mortgages and charges of the company, or an appropriate negative statement;
 - d) The total amount any contingent liabilities or guarantees of the company.
2. Verify the bank debt balances with accounting records and other underlying supporting documents provided by the company, including related securities and guarantees.
3. Obtain direct confirmation of the lenders and reconcile/agree the information with statement of indebtedness.
4. Review the bank debts information with reference to bank facilities agreement and ensure the accurateness of the information.
5. Review to ensure adequacy of documents for mortgages and charges of the company.
6. Review documents in support of all significant contingent liabilities.
7. Obtain a letter from legal department advising on pending and/or expected legal cases.
8. Obtain management representation for completeness and accuracy of the information provided in connection with indebtedness, mortgages and contingencies.
9. Report our finding arising from the procedures performed.

11.4. Statement Of Capitalization

**SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CAPITALIZATION
As at September 30, 2004**

English translation of the official Arabic prospectus



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Certified Public Accountants

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November 20, 2004

The Board of Directors

Saudia Dairy and Foodstuff Company (SADAFCO)

Jeddah, Saudi Arabia

CONSOLIDATED STATEMENT OF CAPITALIZATION AS AT SEPTEMBER 30, 2004

Dear Sirs:

Upon your request and in accordance with the terms of reference stated in our proposal dated November 3, 2004, we have performed the procedures agreed with you (and enumerated in Appendix A of the above-mentioned proposal) with respect to reporting on certain financial information to be included in the prospectus dated December 1, 2004 (the "Prospectus") as required by Capital Market Authority (CMA) for SADAFCO's listing.

Our engagement was undertaken in accordance with the generally accepted auditing standards in respect of agreed upon procedures engagements, as issued by the Saudi Organization for Certified Public Accountants ("SOCPA").

In accordance with the terms of the aforementioned engagement letter, we have performed the agreed upon procedures to report on the attached consolidated statement of capitalization prepared by SADAFCO's management as at September 30, 2004.

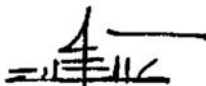
Based on the performance of the procedures enumerated in Appendix A, our findings thereof are:

1. The consolidated statement of capitalization as at September 30, 2004 is based on the interim consolidated financial statements for six months ended September 30, 2004 audited by us and in agreement with SADAFCO's books and records as at that date.
2. The component of the capitalization statement relating exclusively to SADAFCO's operations.

The procedures we have performed were limited in nature and extent to those, which you determined, best fit for your informational needs. Furthermore, such procedures do not constitute an audit or a review in accordance with the generally accepted auditing standards issued by SOCPA. Therefore we do not express an opinion or make any form of representation of the sufficiency of the procedures we performed for your informational needs. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and is only for the information of the Company. This report and the enclosed consolidated statement of capitalization are for your use in the Prospectus, and should not be used for any other purpose or be distributed to any other parties without our prior written consent.

Yours faithfully,



Abdelgadir Bannaga, PhD/FCCA
Senior Partner
License No. 22



SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CAPITALIZATION
AS AT SEPTEMBER 30, 2004

	<i>SR (000)</i>
Cash and cash equivalents	<u>19,980</u>
Debts	
Short term	177,733
Long term	<u>2,617</u>
Total debts	<u>180,350</u>
Shareholders' equity	
Capital	325,000
Statutory and voluntary reserves	152,350
Foreign currency translation adjustment	(10,539)
Retained earnings	<u>39,218</u>
Total shareholders' equity	<u>506,029</u>
Total capitalization	<u>686,379</u>

The accompanying notes 1 and 2 form an integral part of consolidated statement of capitalization.

SAUDIA DAIRY & FOODSTUFF COMPANY (SADAFCO)
(Saudi Joint Stock Company)
AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENT OF CAPITALIZATION
AS AT SEPTEMBER 30, 2004

1. GENERAL

(a) Organization and principle activities

Saudia Dairy and Foodstuff Company (SADAFCO) (the Company) is a closed joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030009917. The Company and its subsidiaries, collectively described as SADAFCO are primarily engaged in the production and distribution of dairy products, beverages and various foodstuff in Saudi Arabia and certain Gulf and Arab countries. One of the subsidiaries in Egypt is involved in dairy farming business.

(b) Basis of consolidation

The consolidated statement of capitalization include SADAFCO and the following entities controlled by SADAFCO:

SADAFCO
Beneficial Interest

{ Swiss Premium Foods Company SAE, Egypt	96.3%
{ SADAFCO Foodstuff & Drinks Company, Egypt	100%
{ SADAFCO Foodstuff Company LLC, UAE	100%
{ SADAFCO Qatar	75%
{ Arab Company for Animal Produce SAE, Egypt	55%
{ SADAFCO Bahrain Company, WLL, Bahrain	100%

2. BASIS OF PREPARATION

The statement of capitalization has been prepared in accordance with the generally accepted accounting principles in the Kingdom of Saudi Arabia.

The amounts appearing in the consolidated statement of capitalization have been extracted from audited consolidated interim financial statements for the six months period ended September 30, 2004 reviewed by the external auditors

12. DEFINITION OF ABBREVIATIONS

AMF	Anhydrous Milk Fat
Associates	Those companies listed in Sections 7 and 10 as associated entities
Authority	The Capital Markets Authority of the Kingdom of Saudi Arabia
Beneficial Ownership	In relation to shares in SADAFCO's Subsidiaries and Associates means those shares owned by nominees on behalf of SADAFCO and in relation to which SADAFCO is entitled to all rights and obligations attaching to those shares.
Biomatrix	Biomatrix Investment Holding Company, Ltd
Board	The board of directors of the Company
Book Building	The process described in Section 2 of the Prospectus
Directors	Directors of the Company
Exchange GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
Group	The Company and the Subsidiaries
Individual Applicants	Saudi Arabian nationals (natural persons)
Qualified Mutual Funds	Mutual funds investing in the Saudi Arabian Stock Exchange and managed by Saudi Arabian financial institutions.
ISO	International Standards Organisation
KIPCO	Kuwait Investment Projects Company
Lead Manager	The National Commercial Bank
Minimum Application	10 Offer Shares
Maximum Application	1,000 Offer Shares
MPH	Milk Products Holdings (Middle East) E.C.
NZDB	New Zealand Dairy Board (now Fonterra)
Offer	The offer of 1,950,000 Offer Shares as set out in this Prospectus
Offer Period	Starting Monday April 25, 2005 and ending Wednesday May 4, 2005
Offer Shares	The 1,950,000 Offer Shares being sold in the Offer
PET	Polyethylene Terephthalate
Prospectus	This Prospectus dated April 25, 2005
SADAFCO or the Company	Saudia Dairy & Foodstuff Company.
SASO	Saudi Arabian Standards Organisation
Selling Shareholders	Those persons described as such on page <i>vii</i> of this Prospectus
Share Application Form	The Share Application Form on which Individual and Institutional Investors may apply to Offer Shares
Shares	The 6,500,000 fully paid ordinary shares of SR 50 each in the Company
SMP	Skimmed Milk Powder
SNZMPL	Saudi New Zealand Milk Products Limited
SR	Saudi Riyal
Subsidiaries	Those entities listed in Sections 7 and 10 as subsidiaries
TPFZE	Tetra Pak Middle East FZE
TPSL	Tetra Pak Service Ltd
UGB	United Gulf Bank
UHT	Ultra Heat Treated
UIC	United Industries Company
US\$	United States Dollar

The exchange rate used in this Prospectus is: USD 1 = SR 3.75

All date references in this Prospectus are to the Gregorian calendar, unless expressly stated otherwise.