Translation from Arabic

**Egyptian Company for Foods (Bisco Misr)**
**(An Egyptian Joint Stock Company)**
**Financial statements**
**for the year ended 31 December 2012**
**and auditor's report**

**KPMG Hazem Hassan**
**Public Accountants & Consultants**

Translation from Arabic

**Egyptian Company for Foods (Bisco Misr)**
**(An Egyptian Joint Stock Company)**
**Financial statements**
**for the year ended 31 December 2012**

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KPMG

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## Auditor's Report

**To: The Shareholders' of Egyptian Company for Foods (Bisco Misr)**

### Report on the Financial Statements

We have audited the accompanying financial statements of Egyptian Company for Foods (BISCO MISR) "an Egyptian joint stock company", which comprise the balance sheet as at 31 December 2012, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

These financial statements are the responsibility of Company's management. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Egyptian Accounting Standards, and in the light of the prevailing Egyptian laws, management responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; management responsibility also includes selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Egyptian Standards on Auditing and in the light of the prevailing Egyptian laws. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Egyptian Company for Foods (BISCO MISR) as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Egyptian Accounting Standards and the Egyptian laws and regulations relating to the preparation of these financial statements.

**Empathy of Matter**
Without qualifying our opinion, we draw attention to Note No. (32) to the financial statements. On December 6, 2012, several resolutions of laws on amending certain provisions of the Tax Laws has been issued and has been published in the Official Gazette on that date. Later statements have been issued by certain officials in respect of freezing the enforcement of such resolutions. Due to the lack of emphatic information to the management of the Company on the enforcement date of such resolutions or the date of cancellation ,the management of the Company hereby did not affect the taxes pools, the related assets and liabilities , the results of operations during the year and the net profit available for distribution. These amounts and results may differ when reliable information become available on the enforcement of such resolutions and the effective date therefore.

**Report on Other Legal and Regulatory Requirements**
The Company maintains proper books of accounts, which include all that is required by law and by the statutes of the Company, the financial statements are in agreement thereto, the Company maintains proper costing accounts, the inventory was counted by management in accordance with methods in practice.

The financial information included in the Board of Directors' report, prepared in accordance with Law No. 159 of 1981 and its executive regulations, is in agreement with the Company's books of account.

Salah El Missary
**KPMG Hazem Hassan**
**Public Accountants & Consultants**

Cairo, 4 March 2013

KPMG Hazem Hassan
Public Accountants and Consultants
(2)

Translation from Arabic

**EGYPTIAN COMPANY FOR FOODS (BISCO MISR)**
**An Egyptian Joint Stock Company**

**Balance sheet as at 31 December 2012**

| | Note | 31/12/2012 LE | 31/12/2011 LE |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 11 | 162 857 938 | 122 550 544 |
| Constructions in progress | 12 | 14 874 733 | 30 101 097 |
| Investments available-for-sale | 13 | 5 375 750 | 5 375 750 |
| Investments in governmental bonds | | 605 817 | 605 817 |
| **Non-current assets** | | **183 714 238** | **158 633 208** |
| Inventories | 14 | 39 239 498 | 40 231 762 |
| Trade & notes receivables | 15 | 7 258 755 | 7 419 446 |
| Suppliers advance payments | | 293 130 | 930 815 |
| Debtors & other debit balances | 16 | 4 967 272 | 4 550 000 |
| Cash at banks and on hand | 17 | 37 852 085 | 48 527 027 |
| **Current assets** | | **89 610 740** | **101 659 050** |
| Loans installments due within one year | 25 | 11 000 002 | 17 000 000 |
| Suppliers and notes payable | 18 | 41 985 463 | 26 987 346 |
| Trade receivables advance payments | | 625 645 | 1 367 147 |
| Credit accounts due to related parties | 24 | 134 364 | 1 447 964 |
| Creditors & other credit balances | 19 | 21 087 899 | 22 376 923 |
| Dividends payable | | 188 515 | 188 515 |
| Provisions | 20 | 1 974 402 | 1 574 402 |
| **Current liabilities** | | **76 996 290** | **70 942 297** |
| **Working capital** | | **12 614 450** | **30 716 753** |
| **Total invested fund** | | **196 328 688** | **189 349 961** |
| Financed as follows: | | | |
| **Equity** | | | |
| Issued and paid up capital | 22 | 92 000 000 | 92 000 000 |
| Reserves | | 22 413 554 | 20 810 662 |
| Retained earnings | | 13 039 413 | 13 389 470 |
| Net profit for the year | | 41 431 367 | 32 057 835 |
| **Total equity** | | **168 884 334** | **158 257 967** |
| Loans | 25 | 5 333 334 | 13 667 668 |
| Deferred tax liabilities | 26 | 22 111 020 | 17 424 326 |
| **Non-current liabilities** | | **27 444 354** | **31 091 994** |
| **Total shareholders' equity and non-current liabilities** | | **196 328 688** | **189 349 961** |

**The notes on pages 6 to 29 are an integral part of these financial statements.**

| Financial Manager | Managing Director for Finance | Vice Chairman & Managing Director | Chairman & Managing Director |
|---|---|---|---|
| (Acc./ Waleed Farouk ) | (Acc./ Mahmoud Abd El Sattar) | (Dr. Eng./ Ahmed El sayad) | (Eng./ Aref Hakki) |

**Auditor's Report " Attached "**

Translation from Arabic

**EGYPTIAN COMPANY FOR FOODS (BISCO MISR)**
**An Egyptian Joint Stock Company**

**Income statement for the year ended 31 December 2012**

| | Note | 2012 LE | 2011 LE |
|---|---|---|---|
| Net sales | 5 | 420 588 653 | 391 028 690 |
| Cost of sales | 6 | (287 120 405) | (279 273 263) |
| **Gross profit** | | **133 468 248** | **111 755 427** |
| Other operating revenues | 7 | 2 366 439 | 3 220 289 |
| Selling & distribution expenses | 8 | (45 709 711) | (40 219 038) |
| General & administrative expenses | 9 | (34 697 476) | (27 576 504) |
| Board of Directors Remunerations | | ( 317 000) | ( 168 500) |
| Other operating expenses | | (1 145 885) | (1 292 086) |
| **Results from operating activities** | | **53 964 615** | **45 719 588** |
| Interest expenses | | (2 251 203) | (2 911 147) |
| Interest income | | 2 097 569 | 1 560 842 |
| Foreign exchange differences | | 778 335 | 539 109 |
| **Net finance income / (finance costs)** | | **624 701** | **( 811 196)** |
| Income from available-for-sale investments | | 695 500 | 695 500 |
| Income from investments in governmental bonds | | 21 204 | 21 204 |
| Gain on sale of property, plant and equipment | | 47 100 | 391 644 |
| Provisions | 20 | ( 400 000) | — |
| Impairment losses on debtors | 21 | ( 420 000) | — |
| Reversal of impairment losses on debtors | | — | 97 285 |
| Other revenues | | 239 741 | 467 197 |
| Other expenses | 10 | ( 301 000) | ( 305 873) |
| | | **507 246** | **555 761** |
| **Net profit for the year before income tax** | | **54 471 861** | **46 275 349** |
| Current income tax for the year | 26 | (8 353 800) | (9 348 040) |
| Deferred tax | 26 | (4 686 694) | (4 869 474) |
| Income tax for the year | | **(13 040 494)** | **(14 217 514)** |
| **Net profit for the year** | | **41 431 367** | **32 057 835** |
| Earnings per share (LE / Share) | 23 | 2.98 | 2.26 |

**The notes on pages 6 to 29 are an integral part of these financial statements.**

Translation from Arabic

**EGYPTIAN COMPANY FOR FOODS (BISCO MISR)**
**An Egyptian Joint Stock Company**

**Statement of changes in equity for the year ended 31 December 2012**

| | Issued and paid up capital LE | Legal reserve LE | General reserve LE | Retained earnings LE | Net profit LE | Total LE |
|---|---|---|---|---|---|---|
| Balance at 1 January 2011 | 92 000 000 | 18 891 370 | 862 001 | 5 669 686 | 21 145 825 | 138 568 882 |
| Transfer to legal reserve | — | 1 057 291 | — | — | (1 057 291) | — |
| Transfer to retained earnings | — | — | — | 7 719 784 | (7 719 784) | — |
| Dividends for year 2010 | — | — | — | — | (12 368 750) | (12 368 750) |
| Net profit for year 2011 | — | — | — | — | 32 057 835 | 32 057 835 |
| **Balance at 31 December 2011** | **92 000 000** | **19 948 661** | **862 001** | **13 389 470** | **32 057 835** | **158 257 967** |
| Balance at 1 January 2012 | 92 000 000 | 19 948 661 | 862 001 | 13 389 470 | 32 057 835 | 158 257 967 |
| Transfer to legal reserve | — | 1 602 892 | — | — | (1 602 892) | — |
| Dividends for year 2011 | — | — | — | ( 350 057) | (30 454 943) | (30 805 000) |
| Net profit for year 2012 | — | — | — | — | 41 431 367 | 41 431 367 |
| **Balance at 31 December 2012** | **92 000 000** | **21 551 553** | **862 001** | **13 039 413** | **41 431 367** | **168 884 334** |

**The notes on pages 6 to 29 are an integral part of these financial statements.**

Translation from Arabic

**EGYPTIAN COMPANY FOR FOODS (BISCO MISR)**
**An Egyptian Joint Stock Company**

**Statement of cash flows for the year ended 31 December 2012**

| | Note | 2012 LE | 2011 LE |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit for the year before income tax | | 54 471 861 | 46 275 349 |
| **Adjustments :** | | | |
| Depreciation | 11 | 14 726 918 | 11 385 428 |
| Interest expenses | | 2 251 203 | 2 911 147 |
| Income from available-for-sale investments | | ( 695 500) | ( 695 500) |
| Income from investments in governmental bonds | | ( 21 204) | ( 21 204) |
| Gain on sale of property, plant and equipment | | ( 47 100) | ( 391 644) |
| Provisions | 20 | 400 000 | — |
| Impairment losses on debtors | 21 | 420 000 | — |
| Reversal of impairment losses on debtors | | — | ( 97 285) |
| Foreign exchange differences | | 121 453 | 93 707 |
| | | 71 627 631 | 59 459 998 |
| **Changes in:** | | | |
| - Inventories | | 992 264 | (8 274 646) |
| - Trade & notes receivable | 29 | ( 620 221) | (2 506 128) |
| - Suppliers advance payments | | 637 685 | ( 455 645) |
| - Debtors & other debit balances | 29 | (4 551 651) | 1 793 416 |
| - Suppliers and notes payable | | 14 998 117 | (4 193 391) |
| - Trade receivables advance payments | 29 | ( 715 415) | ( 706 923) |
| - Credit accounts due to related parties | | (1 313 600) | 1 086 020 |
| - Creditors & other credit balances | 29 | (9 642 824) | 2 008 037 |
| **Cash generated from operations activities** | | 71 411 986 | 48 210 738 |
| Interest paid | | (2 251 203) | (2 911 147) |
| **Net cash from operating activities** | | 69 160 783 | 45 299 591 |
| **Cash flows from investing activities** | | | |
| Payments for purchase of property, plant and equipment and Constructions in progress | | (39 807 948) | (31 425 857) |
| Procceds from available-for-sale investments | | 460 000 | 695 500 |
| Procceds from investments in governmental bonds | | 21 204 | 21 204 |
| Proceeds from sale of property, plant and equipment | | 47 100 | 465 263 |
| **Net cash used in investing activities** | | (39 279 644) | (30 243 890) |
| **Cash flows from financing activities** | | | |
| Procceds from medium term loans | | 5 000 000 | 12 000 000 |
| Payments for medium term loans | | (19 334 332) | (14 999 332) |
| Paid dividends | | (30 805 000) | (12 371 643) |
| **Net cash used in financing activities** | | (45 139 332) | (15 370 975) |
| **Net decrease in cash and cash equivalents during the year** | | (15 258 193) | ( 315 274) |
| Cash and cash equivalents at 1 January | 17 | 46 012 442 | 46 327 716 |
| **Cash and cash equivalents at 31 December** | 17 | 30 754 249 | 46 012 442 |

The notes on pages 6 to 29 are an integral part of these financial statements.

**EGYPTIAN COMPANY FOR FOODS (BISCO MISR)**
**An Egyptian Joint Stock Company**

**Statement of proposed appropriation for the year ended 31 December 2012**

| | 2012<br>LE | 2011<br>LE |
|---|---|---|
| Net profit for the year | 41 431 367 | 32 057 835 |
| Retained earnings brought forward from the previous year | 13 039 413 | 13 389 470 |
| Net profit available for distribution | **54 470 780** | **45 447 305** |
| | | |
| **Distributed as follows:-** | | |
| Legal reserve | 2 071 568 | 1 602 892 |
| Sharerholders' dividends | 34 500 000 | 24 725 000 |
| Employees' dividends | 5 800 000 | 5 100 000 |
| Board of directors remuneration | 1 400 000 | 980 000 |
| Retained earnings carried forward to the next year | 10 699 212 | 13 039 413 |
| | **54 470 780** | **45 447 305** |

**The notes on pages 6 to 29 are an integral part of these financial statements.**

## 1. Reporting entity

The Egyptian Company for Foods (Bisco Misr) – an Egyptian Joint Stock Company – was established by virtue of a presidential decree issued in January 1957 and published in the Egyptian official Gazette issue No. (16) On 21 February 1957 and 19/5/1978. Compliance procedures have been undertaken, accordingly, the Company has become subject to the provision of Law No. 159 / 1981 and its executive regulations and Law No. 95 / 1992 and its executive regulations.

Address of the Company is 32&34 El Sawah Street - Elamiria – Cairo.

The chairman of the board of directors is Eng./ Aref Abdel Rahman Hakki.

The Company is registered in commercial registry under No. 94463 on 20 March 1975.

Company's period is 100 years starting from 31 July 2007 to 30 July 2107.

### The Company's purpose

Purpose of the Company is manufacturing Foodstuff, particularly, pies, biscuits, bread, pastry, candies, chocolate, cereal products and others, providing schools, companies, other entities, local and foreign markets with the same, importing necessary supplies to such industries, undertaking related industrial, commercial, and financial works, undertaking at its own importation transactions, and participating with local and foreign entities practicing similar works which might help the company achieving its purpose in Egypt or abroad, or merging with such entities, purchasing them, or annexing them.

The Extraordinary General Assembly Meeting of the Company's shareholders on 30/3/2010 decided adding a new activity to the Company's activities which representing the buying, selling, leasing, rental, acquisition, exploitation and division of land space or built as well as the arrangement and exploitation of human use, enjoyment all the privileges, ocular rights on this land, building, facilities and dispose of all forms of legal discretion as well as real-estate investments in cities, new urban communities, remote areas and real-estate development of land all over the republic and the processing of all the facilities and services through the development of infrastructure to the land and provide it with facilities, divided and establishing a residential, touristic and provide all related services.

### Registration in the Stock Exchange

The Company is listed in the Egyptian Stock Exchange.

## 2. Basis of preparation

### 2.1 Statement of compliance

The financial statements have been prepared in accordance with Egyptian Accounting Standards ("EAS"), and in the light of the prevailing Egyptian laws.

The financial statements were authorized for issue by the Board of Directors on 3 March 2013.

### 2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following material items in the Balance sheet:

- Non-derivative financial instruments at fair value through profit or loss are measured at fair value; and
- Available-for-sale financial assets are measured at fair value.

### 2.3 Functional and presentation currency

These financial statements are presented in Egyptian pound (LE), which is the Company's functional currency.

### 2.4 Use of estimates and judgments

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the notes.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- •Note (20) - provisions
- •Note (21) - impairment of trade receivables
- •Note (21) - impairment of debtors and other debit balances
- •Note (21) - write down of inventory
- •Note (26) - recognition of deferred tax assets

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### 3.1 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for the difference which is recognized in equity arising on the retranslation of:

- available -for-sale equity investments (except on impairment in which case foreign currency differences that have been recognized in equity are reclassified to profit or loss).

### 3.2 Financial instrument

**Non-derivative financial assets**

The Company initially recognizes loans, receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is date that the Company becomes a party to the contractual provisions of the instrument.

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

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non – derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for sale financial assets.

**Held - to - maturity financial assets**
If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

Held – to – maturity financial assets comprise debt securities.

**Loans and receivables**
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans are measured at amortized cost using the effective interest method, less any impairment losses. Generally, short-duration trade and other receivables with no stated interest rate are stated at their nominal value (original invoice amount) less an allowance for any doubtful debts.

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

**Cash and cash equivalents**
Cash and cash equivalents comprise cash balances and time deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

**Available-for-sale financial assets**
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available –for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for sale debt, presented in fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.
Available-for-sale financial assets comprise equity securities and debt securities.

**Non-derivative financial liabilities**
The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities ( including liabilities designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

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

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

Other financial liabilities comprise loans and borrowings , bank overdrafts, and trade and other payables. Generally, trade payables are recorded at their nominal value.

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

**Capital**
**Authorized capital**

The Company's authorized capital amounts to L.E 160 million.

**Issued and paid up capital**
The Company's issued and paid up capital amounts to L.E 92,000,000 divided into 11,500,000 shares at par value L.E 8 each.

### 3.3 Property, plant and equipment

**(i) Recognition and measurement**
Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labor;
- any other costs directly attributable to bringing the asset to a working condition for their intended use;
- when the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalized borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

**(ii) Subsequent costs**
Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance is expensed as incurred.

**(iii) Depreciation**
Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the assets is completed and ready for use.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives.

Depreciation is generally recognized in profit or loss, unless the amount is included in the carrying amount of another asset. Land is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

| Description | Estimate useful life (Year) |
|---|---|
| • Buildings | 10 – 50 |
| • Leasehold improvements | 5 or lease contract whichever is less |
| • Machinery and equipment | 25 – 33.33 |
| • Mean of transportation | 2.5 – 10 |
| • Tools & supplies | 8 – 10 |
| • Furniture & Office equipment | 10 |
| • Computers & programs | 5 |

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**3.4 Projects under construction**
Expenditures incurred on purchasing and constructing fixed assts are initially recorded in projects under construction until the asset is completed and becomes ready for use. Upon the completion of the assets, all related costs are transferred to fixed assets. Projects under construction are measured at cost less accumulated impairment losses. No depreciation is charged until the project is completed and transferred to fixed assets.

**3.5 Leases**
**Financing lease**
Leases are classified as operating leases. The costs in respect of operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent-free periods) is recognised as deferred income and is released over the life of the lease.

**3.6 Inventories**
Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the moving average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Work in process is measured at the lower of manufacturing cost, which is determined based on the last process reached, or net realizable value (which is less).

Finished production is measured at the lower of manufacturing cost or net realizable value which is less.

Manufacturing cost is included direct raw materials and labor in addition to reasonable share from manufacturing expenses depend on normal operating energy.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### 3.7 Impairment

**Non - derivative financial assets**

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss had an negative impact on the estimated future cash flows of that asset that can be estimated reliably.

**Available-for-sale financial assets**

Impairment losses on available-for-sale financial assets are recognized by reclassifying the accumulated losses in the fair value reserved in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment, amortization and the current fair value, less any impairment loss previously recognized in profit or loss.

Changes in cumulative impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale security increase and this increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale security is recognized in equity.

**Non-financial assets**

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives, the recoverable amount is tested annually for impairment.

An impairment loss is recognized if the carrying amount of an asset or cash – generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU.

Impairment losses are recognized in profit or loss. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**3.8 Defined contribution plans**

The Company contributes to the government social insurance system for the benefits of its personnel in accordance with social insurance Law No. 79 of 1975 and its amendments. Under this Law the employees and the employers contribute into the system on a fixed percentage - of - salaries basis. The Company's contributions are recognized in income statement using the accrual basis of accounting.

**3.9 Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation, the provisions are tested annually at the balance sheet date to reflect its best estimate value.

**3.10 Revenue**

**Goods sold**

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement. For local sales, usually transfer occurs when the product is received at the customer's warehouse; however, for some international shipments transfer occurs upon loading the goods onto the relevant carrier at the port.

The revenue is not recognized in case of uncertainty of revenue collection or costs associated with its or the expected sales return or continuing management association with the goods.

**3.11 Revenue and expenses**

Revenues comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposals and export support. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income received from investments is recognised in profit or loss on the date of collection.

Expenses comprises sales and distributive expenses, general and administrative expenses, early retirement cost, interest expense on borrowings, and impairment losses recognized on financial assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

### 3.12 Income tax

Income tax expense comprises current and deferred tax. Current income tax and deferred tax are recognized in profit or loss except for items recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date.

### 3.13 Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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

### 3.14 Legal reserve

According to the Companies Law requirements and the statutes of the Company, 5% of the annual net profit transferred to a legal reserve until the accumulated reserve reaches 50% of the issued and paid up share capital. The reserve is un-distributable; however, it can be used to increase the share capital or to offset losses. If the reserve falls below the defined level (50% of the issued share capital), than the Company is required to resume setting aside 5% of the annual profit until it reaches 50% of the issued share capital.

## 4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non- financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### 4.1 Non - derivative financial assets

Non – derivative financial assets are measured at fair value.

### 4.2 Available-for-sale financial assets

Available – for- sale financial assets are measured at fair value.

### 4.3 Equity and debt securities

The fair value of equity and debt securities is determined by reference to their quoted closing bid price at the reporting date. The fair value of held – to – maturity investments is determined for disclosure purposes only.

## 5. Net sales

| | 2012<br>LE | 2011<br>LE |
|---|---|---|
| Local sales | 402 871 338 | 365 673 438 |
| Export sales | 17 717 315 | 25 355 252 |
| | **420 588 653** | **391 028 690** |

## 6. Cost of sales

| | 2012 LE | 2011 LE |
|---|---|---|
| Raw material | 209 053 590 | 214 295 847 |
| Wages and salaries | 56 179 119 | 50 283 120 |
| Manufacturing depreciation | 9 109 989 | 6 532 937 |
| Other manufacturing expenses | 11 085 941 | 11 430 991 |
| **Manufacturing cost** | **285 428 639** | **282 542 895** |
| Work in process at 1 January, | 1 572 952 | 1 194 035 |
| Work in process at 31 December, | (1 601 027) | (1 572 952) |
| **Cost of production** | **285 400 564** | **282 163 978** |
| Finished products at 1 January, | 10 381 622 | 7 490 907 |
| Finished products at 31 December, | (8 661 781) | (10 381 622) |
| | **287 120 405** | **279 273 263** |

## 7. Other operating revenues

| | 2012 LE | 2011 LE |
|---|---|---|
| Export Support | 1 032 064 | 1 774 868 |
| Production scrap sales | 1 334 375 | 1 445 421 |
| | **2 366 439** | **3 220 289** |

## 8. Selling & distributing expenses

| | 2012 LE | 2011 LE |
|---|---|---|
| Salaries & wages | 27 002 534 | 23 023 195 |
| Promotional & advertising expenses | 5 093 698 | 4 674 058 |
| Depreciation | 2 632 513 | 2 568 838 |
| Utilities | 3 764 167 | 3 409 112 |
| Maintenance, insurance charges & fees | 3 334 942 | 3 152 359 |
| Rent | 2 579 341 | 1 991 108 |
| Others | 1 302 516 | 1 400 368 |
| | **45 709 711** | **40 219 038** |

## 9. General & administrative expenses

| | 2012<br>LE | 2011<br>LE |
|---|---|---|
| Salaries & wages | 23 014 167 | 18 506 420 |
| Depreciation | 2 984 416 | 2 283 653 |
| Maintenance, security expenses & fees | 3 034 897 | 1 922 800 |
| Utilities | 740 444 | 782 201 |
| Travel and transportation expenses | 1 096 900 | 881 666 |
| Others | 3 826 652 | 3 199 764 |
| | **34 697 476** | **27 576 504** |

## 10. Other expenses

| | 2012<br>LE | 2012<br>LE |
|---|---|---|
| Early retirement expenses | 301 000 | 305 873 |
| | **301 000** | **305 873** |

**11. Property, plant and equipment**

**Property, plant and equipment at 31 December 2012**

| | Lands LE | Buildings LE | leasehold improvements | Machinary & Equipments LE | Mean of transportation LE | Tools LE | Furniture & Offfice equi. LE | Computers & Programs LE | Total LE |
|---|---|---|---|---|---|---|---|---|---|
| Cost at 1 January 2012 | 561 072 | 17 053 694 | 707 890 | 125 665 497 | 27 296 278 | 7 921 387 | 5 884 639 | 12 121 558 | 197 212 015 |
| Additions during the year | — | 2 289 254 | — | 42 257 140 | 4 819 100 | 409 106 | 1 685 400 | 3 574 312 | 55 034 312 |
| Disposals during the year | — | — | — | ( 109 501) | — | — | ( 3 613) | — | ( 113 114) |
| **Cost at 31 December 2012** | **561 072** | **19 342 948** | **707 890** | **167 813 136** | **32 115 378** | **8 330 493** | **7 566 426** | **15 695 870** | **252 133 213** |
| Accumulated Depreciation at 1 January 2012 | — | 7 932 098 | 637 100 | 37 756 665 | 12 872 999 | 5 040 079 | 3 409 544 | 7 012 986 | 74 661 471 |
| Depreciation for the year * | — | 879 990 | 70 790 | 7 530 153 | 2 574 413 | 567 791 | 566 052 | 2 537 729 | 14 726 918 |
| Accumulated depreciation of disposals during the year | — | — | — | ( 109 501) | — | — | ( 3 613) | — | ( 113 114) |
| **Accumulated depreciation at 31 December 2012** | — | **8 812 088** | **707 890** | **45 177 317** | **15 447 412** | **5 607 870** | **3 971 983** | **9 550 715** | **89 275 275** |
| **Carrying amounts at 31 December 2012** | **561 072** | **10 530 860** | — | **122 635 819** | **16 667 966** | **2 722 623** | **3 594 443** | **6 145 155** | **162 857 938** |
| **Carrying amounts at 31 December 2011** | **561 072** | **9 121 596** | **70 790** | **87 908 832** | **14 423 279** | **2 881 308** | **2 475 095** | **5 108 572** | **122 550 544** |
| **Fully depreciated fixed assets at 31 December 2012** | — | **2 013 490** | **707 890** | **15 346 119** | **5 130 265** | **2 930 480** | **1 626 391** | **1 503 888** | **29 258 523** |

* Depreciation of fixed assets for the year is charged on the income statement as follows:-

| | LE |
|---|---|
| Manufacturing expenses | 9 109 989 |
| Selling & distributing expenses | 2 632 513 |
| General & administrative expenses | 2 984 416 |
| | **14 726 918** |

**Property, plant and equipment at 31 December 2011**

| | Lands LE | Buildings LE | leasehold improvements | Machinary & Equipments LE | Mean of transportation LE | Tools LE | Furniture & Offfice equi. LE | Computers & Programs LE | Total LE |
|---|---|---|---|---|---|---|---|---|---|
| Cost at 1 January 2011 | 561 072 | 16 833 298 | 707 890 | 118 208 611 | 25 618 223 | 7 593 067 | 5 491 410 | 11 227 854 | 186 241 425 |
| Additions during the year | — | 220 396 | — | 7 783 446 | 2 540 689 | 334 404 | 394 342 | 951 949 | 12 225 226 |
| Disposals during the year | — | — | — | ( 326 560) | ( 862 634) | ( 6 084) | ( 1 113) | ( 58 245) | (1 254 636) |
| **Cost at 31 December 2011** | **561 072** | **17 053 694** | **707 890** | **125 665 497** | **27 296 278** | **7 921 387** | **5 884 639** | **12 121 558** | **197 212 015** |
| | | | | | | | | | |
| Accumulated depreciation at 1 January 2011 | — | 7 183 970 | 495 522 | 32 962 181 | 11 511 445 | 4 504 678 | 2 877 898 | 4 921 366 | 64 457 060 |
| Depreciation for the year | — | 748 128 | 141 578 | 5 047 447 | 2 224 188 | 541 463 | 532 759 | 2 149 865 | 11 385 428 |
| Accumulated depreciation of disposals during the year | — | — | — | (963 252 ) | (634 862 ) | (062 6 ) | (113 1 ) | (245 58 ) | (1 181 017) |
| **Accumulated depreciation of at 31 December 2011** | — | **7 932 098** | **637 100** | **37 756 665** | **12 872 999** | **5 040 079** | **3 409 544** | **7 012 986** | **74 661 471** |
| **Carrying amounts at 31 December 2011** | **561 072** | **9 121 596** | **70 790** | **87 908 832** | **14 423 279** | **2 881 308** | **2 475 095** | **5 108 572** | **122 550 544** |
| **Carrying amounts at 31 December 2010** | **561 072** | **9 649 328** | **212 368** | **85 246 430** | **14 106 778** | **3 088 389** | **2 613 512** | **6 306 488** | **121 784 365** |
| | | | | | | | | | |
| **Fully depreciated fixed assets at 31 December 2011** | — | **1 908 246** | — | **12 186 424** | **4 599 024** | **2 794 800** | **1 572 258** | **732 926** | **23 793 678** |

## 12. Constructions in progress

| | 31/12/2012 LE | 31/12/2011 LE |
|---|---|---|
| Buildings & constructions | 69 696 | 2 845 616 |
| Machinery & equipment | - | 715 977 |
| Means of transportation | 182 808 | - |
| Computers & software | 163 575 | 163 575 |
| Letters of credit to purchase fixed assets | 14 458 654 | 26 375 929 |
| | **14 874 733** | **30 101 097** |

## 13. Investments available-for-sale

| | 31/12/2012 | | | 31/12/2011 | | |
|---|---|---|---|---|---|---|
| | No. of Shares | Partic. % | LE | No. of Shares | Partic. % | LE |
| United Company For Mills and Integrated Industries | 535 000 | 10.39 | 5 375 750 | 535 000 | 10.39 | 5 375 750 |
| | | | **5 375 750** | | | **5 375 750** |

## 14. Inventories

| | 31/12/2012 LE | 31/12/2011 LE |
|---|---|---|
| Raw materials | 12 086 297 | 12 435 653 |
| Packing materials | 11 348 838 | 10 774 091 |
| Spare parts | 5 538 106 | 4 996 274 |
| Work in process | 1 601 027 | 1 572 952 |
| Finished products | 8 661 781 | 10 381 622 |
| Letters of credit to purchase raw materials and spare parts | 3 449 | 64 666 |
| Goods with others | - | 6 504 |
| | **39 239 498** | **40 231 762** |

Inventories were written-down by an amount of LE 1 732 081 for the year ended 31 December 2012 against their related class of inventory (LE 732 081 at December 31, 2011) (Note 21).

## 15. Trade & notes receivables

| | Note | 31/12/2012 LE | 31/12/2011 LE |
|---|---|---|---|
| Trade receivables – Local | | 4 746 783 | 4 444 123 |
| Trade receivables – Export | | 2 689 529 | 3 152 880 |
| | | **7 436 312** | **7 597 003** |
| **Less:** | | | |
| Impairment on trade receivables | 21 | 177 557 | 177 557 |
| | | **7 258 755** | **7 419 446** |

## 16. Debtors and other debit balances

| | Note | 31/12/2012 LE | 31/12/2011 LE |
|---|---|---|---|
| Accrued revenues | | 2 418 464 | 2 114 633 |
| Tax authority – Withholding tax | | 931 654 | 663 790 |
| Prepaid expenses | | 390 973 | 800 496 |
| Staff loans | | 201 775 | 177 422 |
| Letters of guarantee covers | | - | 46 023 |
| Deposits with others | | 1 014 756 | 747 636 |
| Accrued balances | | 684 931 | 255 281 |
| Other debit balances | | 9 950 | 9 950 |
| | | **5 652 503** | **4 815 231** |
| **Less:** | | | |
| Impairment loss on debtors and other debit balances | 21 | 685 231 | 265 231 |
| | | **4 967 272** | **4 550 000** |

## 17. Cash at banks and on hand

| | 31/12/2012 LE | 31/12/2011 LE |
|---|---|---|
| Banks – time deposits | 27 014 074 | 32 272 869 |
| Banks – current accounts – Egyptian Pound | 7 846 543 | 11 438 171 |
| Banks – current accounts – Foreign currencies | 1 134 182 | 2 468 316 |
| Cash on hand | 413 620 | 1 537 377 |
| Cheques under collection | 1 443 666 | 810 294 |
| **Cash at banks and on hand** | **37 852 085** | **48 527 027** |
| **Less:** | | |
| Banks time deposits blocked against issuance of letters of guarantee & letters of credit | 5 654 170 | 1 704 291 |
| Cheques under collections | 1 443 666 | 810 294 |
| **Cash and cash equivalents in the statement of cash flows** | **30 754 249** | **46 012 442** |

## 18. Suppliers and notes payable

| | 31/12/2012 LE | 31/12/2011 LE |
|---|---|---|
| Suppliers | 41 985 463 | 26 598 276 |
| Notes payable | - | 389 070 |
| | **41 985 463** | **26 987 346** |

## 19. Creditors and other credit balances

| | 31/12/2012 LE | 31/12/2011 LE |
|---|---|---|
| Tax Authority – Current income tax for the year | 8 353 800 | 9 348 040 |
| Tax Authority – Withholding | 235 493 | 202 103 |
| Tax authority – Income tax | 140 427 | 231 328 |
| Tax Authority – sales tax | 1 538 494 | 2 434 801 |
| Deposits from others | 451 222 | 418 111 |
| Accrued expenses | 318 714 | 224 720 |
| Accrued salaries & incentives | 3 366 843 | 3 336 795 |
| Social Insurance Authority | 1 167 652 | 1 116 110 |
| Other credit balances | 5 515 254 | 5 064 915 |
| **Total creditors and other credit balances** | **21 087 899** | **22 376 923** |

## 20. Provisions

| | Balance at 01/01/2012 LE | Charged during the year LE | Balance at 31/12/2012 LE |
|---|---|---|---|
| Provisions for disputed taxes | 915 357 | 400 000 | 1 315 357 |
| Provisions for litigation and claims | 659 045 | - | 659 045 |
| | **1 574 402** | **400 000** | **1 974 402** |

## 21. Impairment loss and write down on assets

| | Note | Balance at 01/01/2012 LE | Charged during the year LE | Balance at 31/12/2012 LE |
|---|---|---|---|---|
| Impairment on trade receivables | 15 | 177 557 | - | 177 557 |
| Impairment on debtors | 16 | 265 231 | 420 000 | 685 231 |
| Inventories write down | 14 | 732 081 | 1 000 000 | 1 732 081 |
| | | **1 174 869** | **1 420 000** | **2 594 869** |

## 22. Capital

**Authorized Capital**

The Company's authorized capital is determined to be LE 160 000 000 (One Hundred and Sixty Million Egyptian Pound).

**Issued and Paid - up Capital**

The Company's issued and paid up capital is LE 92 000 000 (Ninety two Million Egyptian Pound) divided over 11 500 000 shares (Eleven Million and five Hundred Thousand shares) at a par value of LE 8 each, paid in full.

**Shareholders' Structure: -**

| | No. of Shares | Percentage of participation % | Nominal Value 30/09/2012 LE |
|---|---|---|---|
| Private sector mutual funds | 6 822 231 | 59.32 | 54 577 848 |
| Public sector mutual funds | 737 484 | 06.41 | 5 899 872 |
| Banks | 1 720 848 | 14.97 | 13 766 784 |
| Misr Insurance Company | 421 969 | 03.67 | 3 375 752 |
| Misr Life Insurance Company | 364 431 | 03.17 | 2 915 448 |
| Egyptian Awqaf Authority | 586 691 | 05.10 | 4 693 528 |
| Other shareholders | 846 346 | 07.36 | 6 770 768 |
| | **11 500 000** | **100,00** | **92 000 000** |

## 23. Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held.

| | 2012 | 2011 |
|---|---|---|
| Net profit for the year (LE) | 41 431 367 | 32 057 835 |
| **Less:** | | |
| Employees' dividends | 5 800 000 | 5 100 000 |
| Board of directors remunerations | 1 400 000 | 980 000 |
| **Net attributable for shareholders share** | **34 231 367** | **25 977 835** |
| Number of outstanding share during the year | 11 500 000 | 11 500 000 |
| **Earnings per share for the year ( LE/share)** | **2.98** | **2.26** |

**24. Transactions with related parties**

Related parties transactions represent transactions with the Company's shareholders and the companies in which they own shares that give them significant influence. The following table shows the volume and nature of transactions with related parties during the yaer as well as balances as at 31 December 2012.

| | Nature of transactions during the year | Transactions volume during the year Debit LE | Credit LE | 31/12/2012 LE | 31/12/2011 LE |
|---|---|---|---|---|---|
| United Company for Mills and Integrated Industries (Investee Company) | Purchases | 8 128 915 | 6 815 315 | 134 364 | 1 447 964 |
| | | | | **134 364** | **1 447 964** |

**25. Loans**

the company assigned medium term loan agreement with National Societe General Bank with amounted to LE 56 million guaranteed by commercial mortgage on all company's intangible assets that financed from bank, annual fixed interest rate 10.5 % calculated and paid monthly according to loan contract, the principle of loan will be payable over six semiannual fixed installments for 3 years for each loan.

The following Table Shows these loans after deducting paid installments:

| | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| | Due instalments During one year LE | Due Instalments After one year LE | Due instalments during one year LE | Due instalments after one year LE |
| 1- Loan to finance purchase of wafer biscuit line (Cairo Factory) amounted to LE 14,000,000. Installment amounted to LE 2,333,333. The first installment was due on 1 July 2010 & last installment will due on 31 December 2012. | - | - | 4 666 000 | 2 335 000 |
| 2- Loan to finance purchase of Cake line (Elsyiof Factory) amounted to LE 18,000,000. Installment amounted to LE 3,000,000. The first installment was due on 30 September 2010 & last installment will due on 31 March 2013. | 3,000,000 | - | 6 000 000 | 3 000 000 |
| 3- Loan to finance 50% of purchasing wafer biscuit line (Cairo Factory) amounted to LE 7,000,000. Installment amounted to LE 1,166,666. The first installment was due on 30 June 2011 & last installment will due on 31 December 2013. | 2 333 336 | - | 2 334 000 | 2 332 668 |
| 4- Loan to finance purchase of 50 % of purchase (2) Luxe biscuit lines (Elsyiof Factory) amounted to LE 12,000,000. Installment amounted to L.E 2,000,000. The first installment was due on 30 November 2011 & last installment will due on 31 May 2014. | 4 000 000 | 2 000 000 | 4 000 000 | 6 000 000 |
| 5- Loan to finance purchase of 30 % of purchase wafer line (Cairo Factory) amounted to LE 5,000,000. Installment amounted to L.E 833,333. The first installment was due on 31 March 2013 & last installment will due on 30 September 2015. | 1 666 666 | 3 333 334 | - | - |
| | **11 000 002** | **5 333 334** | **17 000 000** | **13 667 668** |

## 26. Income tax

### Deferred tax assets & liabilities

| | 31/12/2012 Assets LE | 31/12/2012 Liabilities LE | 31/12/2011 Assets LE | 31/12/2011 Liabilities LE |
|---|---|---|---|---|
| Fixed Assets | - | 23 081 592 | - | 17 939 898 |
| Provisions | 970 572 | - | 515 572 | - |
| Total deferred tax | **970 572** | **23 081 592** | **515 572** | **17 939 898** |
| Net deferred tax | - | 22 111 020 | - | 17 424 326 |
| **Less:** | | | | |
| Deferred tax previously charged | - | 17 424 326 | - | 12 554 852 |
| **Deferred tax – Revenue / (Expense)** | - | **(4 686 694)** | - | **(4 869 474)** |

### Adjustments to calculate the income tax effective rate

| | 2012 LE | | 2011 LE | |
|---|---|---|---|---|
| Net profit before income tax | 54 471 861 | | 46 275 349 | |
| **Tax adjustments :** | | | | |
| Depreciation calculation differences | (20 519 432) | | (6 650 861) | |
| Gain on sale of property, plant and equipment | (47 100) | | (391 644) | |
| Income From available- for- sale investments | (695 500) | | (695 500) | |
| Income from investments in governmental bonds | (21 204) | | (21 204) | |
| Reversal of impairment losses on debtors | - | | (97 285) | |
| Provisions & impairment losses on debtors | 820 000 | | - | |
| Inventories write down | 1 000 000 | | 149 475 | |
| Board of directors remunerations | 317 000 | | 168 500 | |
| Donations | 89 577 | | 51 306 | |
| Tax adjustments differences | - | | 604 025 | |
| **Net taxable income** | **35 415 202** | | **39 392 161** | |
| Income tax – first slide till L.E 10 million | 2 000 000 | 20.00% | 2 000 000 | 20.00% |
| Income tax – second slide more than L.E 10 million | 6 353 800 | 25.00% | 7 348 040 | 25.00% |
| **Current tax for the year / Effective tax rate** | **8 353 800** | **15.36%** | **9 348 040** | **20.20%** |

## 27. Tax position

### Corporate tax

- Corporate tax was inspected from the inception of the activity till 30 June 2004 and the assessed tax difference was paid.
- Corporate tax inspection of the company's income for the year 2004/2005 was held, and the tax forms (18 & 19) were received where the taxation differences amounted to be L.E 686 984 (Sixty Hundred Eighty six Thousand Nine Hundred Eighty Four Egyptian Pound) and the company's objection on that forms was sent on the legal period prescribed by the law and the dispute matters are being transferred to the internal committee of the tax authority, the company formed the provision required for this dispute.
- The Company was inspected for the period from 1/7/2005 till 31/12/2005, and the tax form (19) was received. There is material dispute matter which consider the evaluating gain of the long term available-for-sale investments is a taxable item, the company challenged the final appeal on that form on legal due date, and the dispute matters are being transferred again to the internal committee of the tax authority. The internal committee issued its decision for the dispute matter in favor of the company, and exempted the evaluating gain of the long term available-for-sale investments from tax, so it is not subject to tax.
- The Company was inspected for the period from 1/1/2006 till 31/12/2006, and the tax form (19) was received and the company's objection on that form was sent on the legal period prescribed by the law and the time for inspection again not determine yet.
- The period from 1/1/2007 till 31/12/2007 is currently inspected.
- The Company was not inspected for the period from 1/1/2008 till 31/12/2011.
- The Company submits its tax return regularly on due dates.

### Sales tax

- The Company was inspected for sales tax till 31/12/2006 and the assessed tax difference was paid and the company's objection on the delay penalties that amounting to L.E. 228 373 on due dates, the company formed the provision required for this dispute.
- Sales tax was inspected for the period from 1/1/2007 till 31/12/2008 and the assessed tax difference was paid.
- The period from 1/1/2009 till 31/12/2011 is currently inspected.
- Sales tax was not inspected for the period from 1/1/2012 to 31/12/2012.
- The Company submits the monthly tax return on due dates.

### Salary tax

- The Company was inspected for salary tax from the beginning of the activity till 31 December 2005, and the assessed tax difference was paid.
- The final tax adjustments for the period from 1/1/2006 to 31/12/2007 were prepared by the company and were received by of the key taxpayer's centre and it is currently inspected.
- Salary tax was not inspected from 1/1/2008 to 31/12/2012.
- The Company submits the quarterly tax return on due dates.

**Stamp tax**

- The Company was inspected for stamp duty tax from the beginning of the activity till 31/7/2006, and the assessed tax difference was paid.
- Stamp tax was inspected for the period from 1/8/2006 till 31/12/2007 and the assessed tax difference was resulted, the Company's objection was accepted by the Tax Authority and currently the re-inspection is in progress.
- Stamp tax was not inspected from 1/1/2008 to 31/12/2012.
- The Company pay the stamp tax liabilities on the due dates.

## 28. Financial instruments and related risk management

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

- Credit risk
- Liquidity risk
- Market risk

**Risk management frame work**

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

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's audit committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's audit committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the B.O.D.

This note presents information about the company's exposure to each of the above risks which include the currency risk and interest rate risk, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital. Further quantitative disclosures are included throughout these financial statements.

- **Credit risk**

Credit risk is represented in the inability of customers granted credit facilities to pay the balances due from them. This risk is controlled by the company through credit selling to a limited number of reputable customers of strong credit position and governmental bodies. Further, the company obtains notes receivable from the customers against their debts due to the company, therefore, the company considered this risk to be limited because the most sales of the company is on cash.

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

| | Note | 31/12/2012<br>LE | 31/12/2011<br>LE |
|---|---|---|---|
| Trade Receivable | 15 | 7 258 755 | 7 419 446 |
| Suppliers advance payments | | 293 130 | 930 815 |
| Debtors and other debit balances | 16 | 4 967 272 | 4 550 000 |
| Cash at banks | 17 | 37 438 465 | 46 989 650 |
| | | **49 957 622** | **59 889 911** |

- **Liquidity risk**

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

The Company uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimizing its cash return on investments. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities:

| 31 December 2012 | Book value LE | 6 months or less LE | 6-12 Months LE | 1-2 Years LE | 2-5 Years LE |
|---|---|---|---|---|---|
| Suppliers and notes payable | 41 985 463 | 41 985 463 | - | - | - |
| Credit accounts due to related parties | 134 364 | 134 364 | - | - | - |
| Creditors and other credit balances | 21 087 899 | 21 087 899 | - | - | - |
| Dividends payable | 188 515 | 188 515 | - | - | - |
| Loans | 16 333 336 | 7 000 000 | 4 000 002 | 3 666 667 | 1 666 668 |
| | **79 729 577** | **70 396 241** | **4 000 002** | **3 666 667** | **1 666 668** |

| 31 December 2011 | Book value LE | 6 months or less LE | 6-12 Months LE | 1-2 Years LE | 2-5 Years LE |
|---|---|---|---|---|---|
| Suppliers and notes payable | 26 987 346 | 26 987 346 | - | - | - |
| Credit accounts due to related parties | 1 447 964 | 1 447 964 | - | - | - |
| Creditors and other credit balances | 22 376 923 | 22 376 923 | - | - | - |
| Dividends payable | 188 515 | 188 515 | - | - | - |
| Loans | 30 667 668 | 8 500 000 | 8 500 000 | 11 667 668 | 2 000 000 |
| | **81 668 416** | **59 500 748** | **8 500 000** | **11 667 668** | **2 000 000** |

- **Market risk**

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

- **Currency risk**

The company is exposed to currency risk on sales and financial assets that are denominated in a foreign currency. The currency in which these transactions are primarily denominated is the US Dollars.

In respect of monetary assets and liabilities denominated in other foreign currencies, the company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Company's exposure to foreign currency risk:

| **31 December 2012** | **US Dollar** | **European Euro** | **Total LE** |
|---|---|---|---|
| Trade receivable | 423 348 | - | 2 688 260 |
| Cash at banks | 1 615 684 | 33 833 | 10 541 761 |
| Trade receivables – advance payments | (79 094) | - | (502 247) |
| **Surplus** | **1 959 938** | **33 833** | **12 727 774** |
| **Total in LE** | **(12 445 607)** | **282 167** | **12 727 774** |

| **31 December 2011** | **US Dollar** | **European Euro** | **Total LE** |
|---|---|---|---|
| Trade receivable | 523 734 | - | 3 152 878 |
| Debtors and other debit balances | 7 645 | - | 46 023 |
| Cash at banks | 2 271 510 | 62 602 | 14 159 030 |
| Trade receivables – advance payments | (190 124) | - | (1 144 546) |
| **Surplus** | **2 612 765** | **62 602** | **16 213 385** |
| **Total in LE** | **15 728 845** | **484 540** | **16 213 385** |

The exchange rate used during the year is as follows:

| | **Average exchange rate** | | **Closing rate** | |
|---|---|---|---|---|
| | **31/12/2012** | **31/12/2011** | **31/12/2012** | **31/12/2011** |
| US Dollar | 6.19 | 5.91 | 6.35 | 6.02 |
| Euro | 8.04 | 7.69 | 8.34 | 7.74 |

**Sensitivity analysis**

A 10% strengthening of the foreign currencies against the EGP as at 31 December 2012 may increase profit and loss in the following amounts. This analysis assumes that all other variables, in particular interest rates, remain constant.

The analysis was performed on the same basis for 2011.

| | **Profit /(Losses)** | |
|---|---|---|
| | **31/12/2012 LE** | **31/12/2011 LE** |
| US Dollars | 1 244 561 | 1 572 884 |
| Euro | 28 217 | 48 454 |
| | **1 272 778** | **1 621 338** |

A 10% weakening of the foreign currencies against the EGP as at 31 December 2012 would have had the equal but opposite effect on the foreign currencies to the amounts shown above.

- **Interest rate risk**

Interest rate risk is represented in the fluctuation of interest rates on the facilities granted to the company by the banks.

This risk is considered as a limited risk due to determining fixed interest rate on the loan which represents the basic indebtedness of the company.

- **Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the company defines as net operating income divided by total shareholders' equity. The Board of Directors also monitors the level of dividends to shareholders. There were no changes in the company's approach to capital management during the year.

## 29. Cash flow statement

The following transactions were eliminated when preparing the cash flow statement as these transactions are considered non-cash transactions:

| | Change Value LE | Non cash Transaction LE | Cash Flows LE |
|---|---|---|---|
| Trade receivables | 160 691 | (780 912) | (620 221) |
| Debtors and other debit balances | (417 272) | (4 134 379) | (4 551 651) |
| Trade receivables-advance payment | (741 502) | 26 087 | (715 415) |
| Creditors and other credit balances | (1 289 024) | (8 353 800) | (9 642 824) |

## 30. Financial lease

The Company signed a finance lease agreement with El Tawfeek Leasing Company on May 24, 2010 to finance the lease of four Chevrolet trucks amounting to LE 659 148. The payment will be paid on twelve equal quarterly installments over three years, each installment amounts to LE 54 929, the first installment was due on June 10, 2010 and the twelfth and last installment will be due on March 10, 2013. The Company has the right to buy these trucks upon the end of the finance lease contract after paying the rental value installments in full against one Egyptian Pound per truck.

And on January 2, 2012 the company has signed a new contract (selling contract) with El Tawfeek Leasing Company for purchasing these cars and transferring its ownership to the company with a total amount of LE 263 048 and cancelling the previous one.

## 31. Capital Commitment

The Company's capital commitments are represented in total contracts with external parties to purchase two luxe biscuit line and packing machines for the company's factories detailed as follows:-

| | Total Commitment 31/12/2012 LE | Commitment Performed 31/12/2012 LE | Outstanding Commitment 31/12/2012 LE | Outstanding Commitment 31/12/2011 LE |
|---|---|---|---|---|
| Letters of credit to purchase machinery | 31 543 657 | 23 549 875 | 7 993 782 | 6 218 510 |
| | **31 543 657** | **23 549 875** | **7 993 782** | **6 218 510** |

**32. Other events during the year**

On December 6, 2012, several resolutions of laws on amending certain provisions of the Tax Laws has been issued and has been published in the Official Gazette on the that date, provided that such resolutions shall come into force from the date following the date of publication. And such amendments are:

- Amending the provisions of the Income tax Law No. 91 of 2005.
- Amending the provisions of the General Sales tax Law No. 11 of 1991.
- Amending the provisions of the Real Estate tax Law No. 196 of 2008.
- Amending the provisions of the Stamp Duty Law No. 111 of 1980.

Later statements have been issued by certain officials in respect of stopping the enforcement of such resolutions, therefore the company management did not affect the finical statements with these amendments. when reliable information become available on the enforcement of such resolutions and the effective date therefore, these amendments might affect the taxes pools, the related assets and liabilities, the results of operations during the year and the net profit available for distribution