The Annual Report of The Savola Group

This is the annual report for the fiscal year that ended December 31, 2004.
These results were submitted to The Savola Group shareholders at the
28th Ordinary Annual General Meeting held on May 4, 2004
(corresponding to 25 Rabai’ I 1426H).

Savola began as an edible oil refinery with 50 employees in 1979.

Today it has grown to be one of the largest diversified food manufacturers in the Middle East. In Saudi Arabia alone it now employs 6,440.

A Word from The Chairman

Dear Shareholders

It gives me great pleasure to begin this 2004 report with the news that The Savola Group, with the help of Almighty Allah, has achieved its strategic "555" goal one full year ahead of plan.

The Group has also increased its paid-up capital by 25%, from SR 800 million to SR 1 billion, by granting one free share for each four owned shares.

With The Group requirements to finance major expansion projects, the Board has re-confirmed its previous resolution announced in September 2004 to increase again The Group capital.

An additional five million shares will be offered at SR 400 per share (SR 50 as nominal value + SR 350 as premium). The rights offering will be made exclusively to shareholders registered in the Company's books at the end of the date of the Shareholders Meeting. This date will be announced immediately after being obtained from the relevant authorities.

The major projects emerging from The Group's expansion strategy include new market entities in Egypt and Jordan, followed during the year by new companies in Morocco, Sudan, Kazakhstan and Iran.

The investment portfolio of The Group contributed significantly in raising the profitability of The Group for the year 2004 and was a major achievement this year.

The Group will exert every effort to serve The Group's shareholders interest and contribute in developing the community. We will continue adopting our scientific planning methods, remain committed to solid ethics and values and implement transparency principles in all Savola Group business aspects.

Finally, on behalf of myself and my colleagues I would like to thank The Savola Group's respected shareholders for their continued trust and support. My sincere thanks and appreciation are also extended to all Group and business unit managers and their employees for their dedication, commitment and their unwavering efforts to achieve The Group's strategic "555" goal.

Adel M. Fakeih
Chairman of the Board of Directors

2004 Success Highlights

The Strength of Commitment to 555: How Savola Grew and Learned

The Savola Group announced the ambitious target of "555" in the fiscal year 2000, committing to build the skills to achieve SR 5 billion sales and SR 500 million net profit by the year 2005–the 555 goal.

The 2004 consolidated financial results showed that The Savola Group exceeded this with sales reaching SR 5.6 billion, an increase of 36% over 2003. Net profits grew to SR 502 million, a 67% increase compared to last year. And all in one year faster than targeted.

During these four years, many Savola Group growth strategies became successes.

Achievements:

- Diversified the operations and sources of income of The Savola Group through a balanced investment policy.
- Maintained our investments in Savola core businesses.
- Developed an effective investment portfolio in the Saudi Stock Market, enabling The Group to access those investments opportunities.
- Maintained a leadership position among Saudi joint stock companies, serving the interests of shareholders and community as well. In 2004 paid total quarterly dividends to shareholders of SR 265 million.

Chairman H.E. Adel Fakeih with CEO Dr. Abdulraouf Mannaa

The Savola Board of Directors welcomed Dr. Abdulraouf M. Mannaa to his new role as CEO of The Group, and they congratulated H.E Eng. Adel Fakeih for his appointment as Mayor of Jeddah City.

Dr. Abdulraouf Mannaa, the newly appointed CEO, has a 15-year history with The Savola Group. Dr. Mannaa was the President of the Savola Foods Division and President of both the Investments and IT Divisions. Previously he was the Managing Director of Savola Sime Egypt and a Board Member of United Sugar Company. He will continue as a Board Member of some of the Savola subsidiaries.

To Our Shareholders

The Savola Group Board of Directors has the pleasure to submit The Savola Group Annual Report for the fiscal year ended December 31, 2004.

This report was presented at the 28th Ordinary AGM of The Savola Group, to The Group Shareholder Assembly. It details The Group's exceptional performance during the year 2004.

With the help of Allah, the year was crowned with the achievement of The Group's "555" Strategic Goal one full year ahead of plan.

This report includes the Board of Directors' Report and the final consolidated audited accounts for the year 2004 together with their clarification notes. Also included is the independent auditors report on The Group's commercial activities.

The Board would like to take this opportunity to extend its thanks and appreciation to the Government of the Custodian of the Two Holy Mosques for its continuous support and encouragement.

The Board would also like to thank all of its customers for the trust and loyalty they have placed in The Savola Group and its products.

In addition, the Board would like to thank The Group's esteemed shareholders for their trust and support. Many thanks also go to The Group and business unit management and their employees who have made possible another successful year. Many thanks to them all for their dedication and boundless efforts during the year 2004.

May the peace, mercy and blessings of Allah be upon you.

The Savola Group Board of Directors


Saleh M. Al Khilaiwi


Dr. Ghassan Ahmad Al Sulaiman


Dr. Majed Abdullah Al Gossabi


Dr. Abdullah Mohammed Ali Telmesani


Ammar A. Al Khudairi


Prince Naif Bin Sultan Bin M. Bin Saud Al Kabeer


Mohammad Abdulqadir Al Fadl


Mousa Omran Al Omran


Abdulaziz Khaled Al Ghufaily


Ibrahim M. Alissa


Youssef Mohammad Alireza

Our Plans, Our Strengths, Our Goals

Our Plan

Build the most successful publicly listed diversified investment group in the Middle East, focused on food industries.

Our Strengths and Goals

Clear vision:

Give consumers a fair price, while ensuring returns to our investors and all stakeholders.

Create a satisfying work experience for all Savolans.

Inspire personal responsibility and enthusiasm for opportunity.

Marketing skills:

Excel competitively by always looking for ways to create superior offers for our customers–what we call "offer advantage."

Remain responsive and agile in growing market share through our market research, in-depth analyses and 25 years of experience.

Ethics and values:

Maintain a commitment to our Savola corporate ethics while delivering value to all our stakeholders. This commitment is defined by The Balanced Way.

Ensure world-class transparency in our corporate governance.

Synergistic investments:

Strive to make full use of our core competencies.

Enhance our "offer advantage" in basic food industries by operating in relevant support industries and maintaining an active investment portfolio.

Grow a deliberate portfolio of complementary brands and production abilities.

Allah's help:

We firmly believe that Allah's help and blessings will always be there, supporting those who maintain good and sincere intentions.

Corporate Social Responsibility

In July 2004, a new division was launched titled Corporate Social Responsibility (CSR).

CSR is based on ethical values where The Group commits to its responsibilities toward internal and external stakeholders.

Internal stakeholders are employees, investors, customers, and suppliers. Savola pledges to ensure fair practice towards all internal stakeholders.

External stakeholders are the environment and our community. The mission of Savola Bridges is to create innovative, long-term "self help" programs that help serve the community and the environment.

CSR is a way to ensure the Company's sustainability. According to studies and research conducted by major universities and research firms around the world, balanced companies are proven to grow and increase their profits faster than companies that only concentrate on increasing share value.

The Savola Group has been known for "The Balanced Way" when it comes to decisions and setting goals and strategies to achieve them.

Savola's Balanced Way is a work-life alignment tool that takes the basic Islamic principles of ethics, values and social interactions and responsibility and translates them into a globally understandable business terminology.

In honor of our culture of The Balanced Way, we at The Savola Group are committed to our social responsibility. We pledge to work relentlessly in achieving world class standards of openness, transparency and accountability towards all our stakeholders, and build bridges to reach out and serve the communities we operate in.

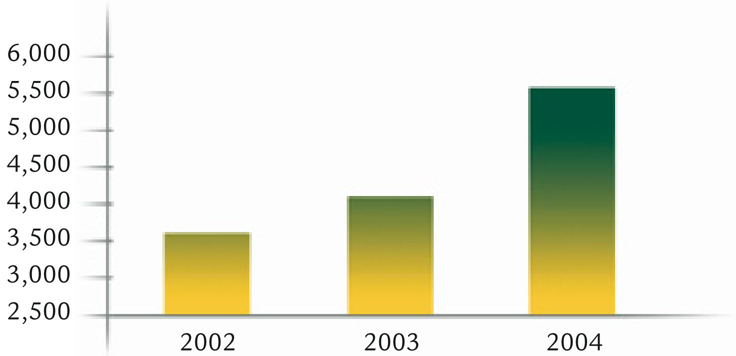
We believe that success will be sustained with pure intentions and God's blessings. It is sustained success that will allow Savola companies to maximize returns to shareholders, which, in turn, will allow us to contribute more to the societies in which we operate.

Savola Bridges
Our Social Responsibility

Key 2004 Financial Highlights

(Saudi Riyals in millions)

Savola Group Sales



In 2004 Group net sales grew by 35.7% over 2003 driven by growth in all business divisions and the consolidation of the Iranian joint-venture (edible oils)

(Saudi Riyals in millions)	**2000**	**2001**	**2002**	**2003**	**2004**
Net Sales	2,896	3,356	3,624	4,128	5,602
Net Sales Growth	13.2%	15.9%	8.0%	13.4%	35.7%
EBIT	204	269	318	410	648
EBIT Margin (% of Net Sales)	7.0%	8.0%	8.8%	9.9%	11.6%
Net Income before Minority Interests (MI)	192	203	276	373	573
Net Margin (% of Net Sales)	6.6%	6.0%	7.6%	9.0%	10.2%
Net Income	138	153	208	301	502
Net Margin (% of Net Sales)	4.8%	4.6%	5.7%	7.3%	9.0%
Total Assets	4,047	3,578	3,472	3,938	6,195
Total Liabilities	2,003	1,587	1,370	1,718	3,492
Total Equity (incl. MI)	2,044	1,991	2,102	2,220	2,703
Total Shareholders Equity	1,685	1,658	1,718	1,850	2,071
Leverage Ratio (Total Liabilities / NTE)	1.2	0.9	0.7	0.8	1.4
Gearing Ratio (Financial Debt / NTE)	0.7	0.4	0.3	0.5	1.1
Return on Total Assets	4.7%	5.7%	8.0%	9.5%	9.3%
Return on Shareholders Equity	8.2%	9.2%	12.1%	16.3%	24.2%
Earnings per Share	10.9	12.2	16.5	18.8	25.1

* EBIT Earnings Before Interest and Taxes ** NTE Net Tangible Equity (Shareholders Equity + Minority Interests – Net Goodwill)

The principal financial indicators for the year 2004 show a significant improvement over 2003 as a consequence of:

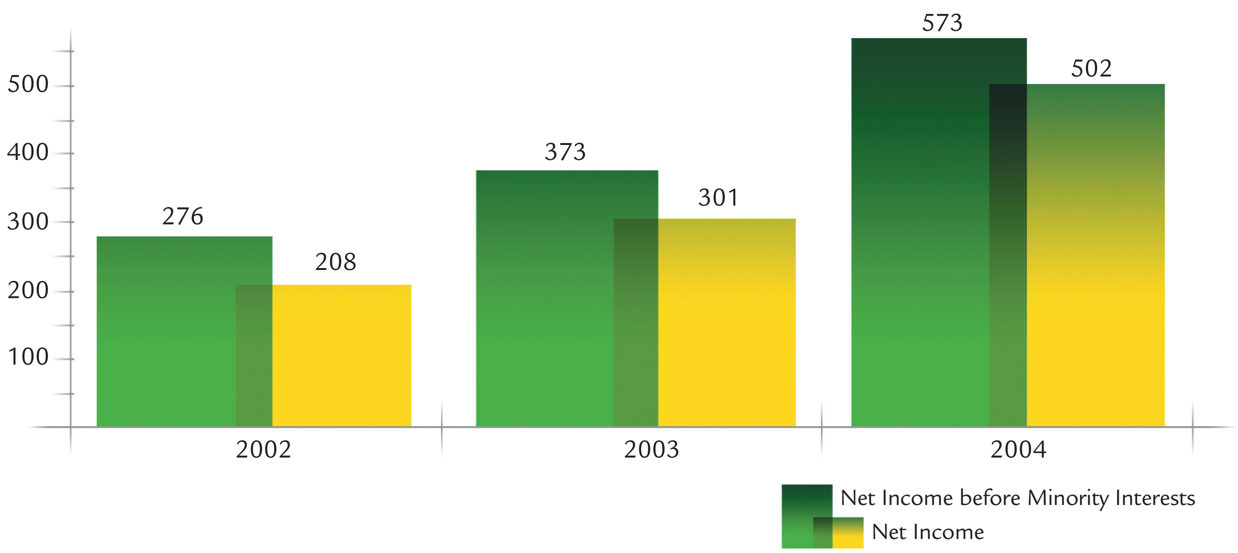
- Divestiture of non-core assets (i.e. SAGCO)
- Attractive gains realized on investment activities
- The consolidation of the new joint-venture in Iran in the edible oils sector

Key 2004 Financial Highlights

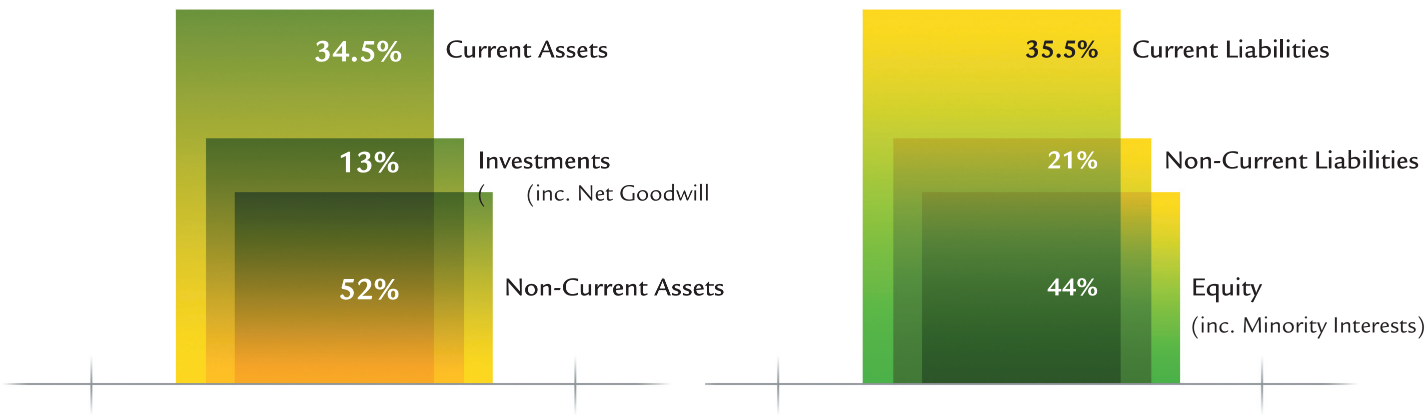
(Saudi Riyals in millions)

Savola Group Net Income

Net income grew as a result of strong performance of all core businesses



Savola Group Balance Sheet Structure



The company's level of liabilities increased in 2004 due to the consolidation of the Iranian joint-venture

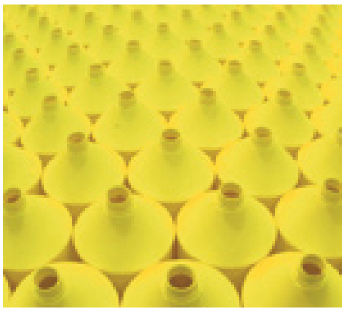
Holdings and Activities

Edible Oils
Savola Edible Oils KSA
Savola Sime Foods Egypt
Savola Jordan
Savola Morocco
Savola Sudan
Savola Behshahr Company
Savola Kazakhastan Company

Retail Division
Food Retailing
Real Estate
Franchising

Investments
Al-Marai (Dairy)
Herfy Food (Restaurants)
ACI (Investments Portfolio)

Sugar Division
SIIC / United Sugar
United Sugar Company of Egypt



Support Activities
Savola Group HQ
Savola Academy
Royah

Packaging Division
Plastics Factory

The Executive Members

Dr. Abdulraouf M. Mannaa
President,
Oils & Fats Division

Dr. Sami M. Baroum
President, Retail Division
President, Real Estate Division

Dr. Mohammad A. Kashgari
President, Sugar Division
President, Packaging Division

Dr.Ibrahim H. Al Madhoon
Executive Vice-President,
Corporate Development
& Chief Corporate
Governance Officer

2004 Major Achievements

- The Group achieves its "Triple Five" strategic goal one full year ahead of plan.
- Election of The Savola Group's new Board of Directors for new three year office term, starting July 1, 2004.
- The Board of Directors forms the Corporate Governance Committee and Social Responsibility Committee.
- Savola begins to distribute dividends to its shareholders on a quarterly basis. Total dividends paid to Savola shareholders during 2004 reaches SR 265 million.
- Board of Directors recommends an increase of The Group paid-up capital by offering new additional shares with SR 400 price.
- Group paid-up capital increases by 25% (from SR 800 million to SR 1 billion) and then for 2005 from SR 1 billion to SR 1.25 billion.
- Retail Division launches its first hypermarket "HyperPanda" in Riyadh, with plans to open 20 more in the next five years.
- Savola sold all its shares in Zoujaj Company, booking a SR 30 million capital gain.
- Divestment of Saudi Arabia Glass Company (SAGCO), booking a SR 90 million capital gain.
- Establishment of Savola China, with total investment of SR 7.5 million.
- Establishment of United Sugar Company of Egypt with total investment of US$107 million. Commercial operation of the sugar refinery is expected to begin June 2006 with an initial production capacity of 600 kMT.
- Establishment of Savola Kazakhstan Company with total investment of SR 47 million.
- Establishment of Savola Behshahr Company (SBC) in Iran with total investment of SR 290 million.
- United Sugar Company plans to increase its annual refinery production capacity to 1.2 million metric tons.
- Establishment of United Property Company (UPC) in partnership with a South African specialist firm in real estate and retail property management.
- Announcement of Savola Sudan edible oil commercial operations to begin 2005.

Retail

The Retail Division, owned 100% by Savola, consists of three major business units: Food Retailing with Panda, Azizia and HyperPanda stores, Real Estate for property development, and Franchising to introduce new retail franchises into the Kingdom.

The Retail Division performed well in 2004, with its three business units all showing major achievements.

In food retailing, Panda, Azizia and HyperPanda stores now account for over 10% of all grocery purchases from supermarkets in the Kingdom. Food Retailing sales increased by 12.3% to SR 1,853 million for 2004. This growth came in the face of increased competition from international firms entering the Saudi market and local players who responded by opening new stores and improving the effectiveness of their operations.

Panda is the first food retailer to trade nationally, with stores in Riyadh, Jeddah, Qassim and the Eastern Province.

Four new supermarkets are under construction for opening in the last quarter of 2005, with 45 more planned to open in the next five years. A new Panda supermarket opened during the year in a prime location in Dammam. This Panda features new retailing ideas that will be tested and refined for other Panda launches.

HyperPanda is the hypermarket format. The first opened in August 2004 in Riyadh and is the anchor tenant of the new Azizia Mall. This HyperPanda has a sales area of

11,600 sq. m., twice as large as any Panda. A second HyperPanda is planned to open in Jeddah in the autumn 2005. Additionally, the rate of new hypermarket openings is accelerating, with the Company planning to open 20 more hypermarkets in the next five years.

HyperPanda presents customers with a wide range of products including food, clothing, electronics, household appliances and Do-It-Yourself. Non-food business increased significantly with the opening of the first HyperPanda. Lower prices coupled with exciting HyperPanda promotions provide customers the best value shopping trip in the Kingdom.

Real estate–property development and holdings–supports the rapid expansion of the Division's Food Retailing businesses. The largest new construction is the Riyadh Azizia Mall, located on one of the city's

Retail

main arterial routes. The mall has more than 2,200 car parking spaces and an attractive mix of retailers to draw traffic.

In Riyadh phase one construction of the Rimal Centre project was completed and leased to IKEA, which opened in September 2004.

Ambitious construction plans are already underway for 2005, including new major city supermarkets and hypermarkets. Eight malls are in advanced stages of planning. The Real Estate unit is confident of its capability to deliver quality retail space, in very quick timescales, that is attractive to prospective tenants and accelerates the unit's Food Retailing growth.

In 2004, Real Estate entered into a joint venture with one of the world's leading teams in the development and management of retail property. This joint venture with Old Mutual Properties of South Africa now gives the unit access to enormous professional resources. This is expected to improve retail environments for customers while at the same time reduce both construction time and costs.

Franchising recognizes the opportunity to bring new and exciting brands from around the world to the Kingdom. A small specialist team was formed in 2004 to identify and research opportunities. Three brand new franchises are in progress for a Jeddah launch in 2005 with several more exciting new franchises in the advanced stages of planning.

Saudization remains both a challenge and opportunity for the Retail Division. Although the turnover among Saudis is relatively high, the Division achieved a record number of Saudi employees. By year end,

Retail Division employed 1,900 Saudis, representing more than 30% of the workforce. This commitment to Saudization was honored with the award of the Prince Naif Saudization Award, presented by the Labour Minister Dr. Ghazi Al-Gosaibi.

Training retail staff remains a key priority. By year end, the Division employed over 5,500 people. Heavy investments continue to be made in training all levels of staff. For example, the Panda Academy opened two new training centres, so now there are centres in Riyadh, Jeddah, Dammam and Buraida. The ambitious new store development program and the introduction of new franchises into the Kingdom will create several thousand new jobs for young Saudis over the next five years.

Edible Oils

The Savola Group owns 90% of Savola Edible Oils Company.

The Savola Edible Oils Company (SEO) is rapidly becoming one of the world leaders in branded edible oils products. SEO was able to maintain its record of profitability and its market leadership position in current markets, despite unfavorable economic conditions and strong competitors' activities.

The combined turnover of SEO reached SR 2,308 million in 2004, an increase of 82% over sales of SR 1,267 million in 2003. Edible oil production dramatically increased, with sales volume reaching 752,742 MT compared to 387,907 MT in 2003. This growth enabled The Savola Group to achieve its "555" targets one full year ahead of its 5-year plan.

The increase was largely due to acquisitions of controlling stakes in companies in Iran and Kazakhstan, plus new operations in Morocco along with strong organic growth of existing businesses.

Savola Edible Oils operates and manages the following factories and subsidiaries and owns controlling interests of differing percentages:

Savola Edible Oils–GCC Operations

Savola Edible Oils–GCC Operations is 100% owned by Savola Edible Oils Company

GCC Operations delivered all-time high operating profits while revenues grew to SR 852 million compared to SR 737 million last year.

Despite fluctuations in raw material costs, competition from imported cheap brands and increased pressure from local manufacturers, the Company managed to maintain its overall market leadership position with nearly 70% market share.

AFIA and Al-Arabi, the company's flagship brands, maintained their dominant market positions and their packaging formats have now become industry standards.

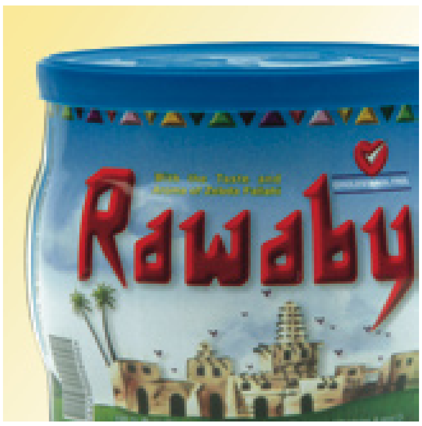
A new brand, Afia Khairat, was successfully launched and received well by the market. O'lite, a premium sunflower oil brand launched last year, continued to gain market share in the sunflower category, up to 21% from 12% in 2003.

Savola Behshahr Iran (SBC)

Savola Behshahr Company is a joint venture 49% owned by Savola Edible Oils (with Management control) and 51% by Behshahr Industrial Development Company

SBC owns and operates two edible oil manufacturing units, namely Behshahr Industrial Company (BIC) and Margarine Manufacturing Company (MMC), both listed on the Tehran Stock Exchange. The deal to acquire SBC and take control of the two biggest edible oils producers in Iran was finalized in July 2004. Since that time the operations of BIC and MMC are being reorganized and restructured to conform to Savola standards.

The combined market shares of BIC and MMC are estimated at 34% of the 1.2 million MT Iranian market, with Ladan and Aftab as their leading consumer brands.



Edible Oils

BIC and MMC managed to generate sales revenue of SR 667.6 million on sales volume of 279 kMT. The profitability of these operations was adversely affected by extraordinary restructuring charges and a price war started by local manufacturers who felt threatened by Savola's entry into the Iranian market. It is envisaged that this price war will subside, Inshaallah, and both companies will return to normal levels of profitability.

During the period under review only nine months of operating results were consolidated as SBC follows a different accounting calendar.

Savola Sime Egypt (SSE)

Savola Sime Egypt is 50% owned by The Savola Group and its subsidiary Savola Edible Oils Company

Savola Sime Egypt continues to face difficult conditions in the Egyptian market. These include unstable raw materials prices and an inability to increase consumer prices because of the high devaluation of the Egyptian Pound and low purchasing power. Despite all these obstacles, SSE managed to maintain its market share and even entered new market segments.

The overall market share of SSE reached 26.3% in 2004 compared to 25% in 2003 while delivering reasonable level of profitability, despite the tough market conditions.
SSE successfully launched the Hanady brand to create a new frying oil segment in the local market. The brands Golden Sun and the Rawaby mini-pack received widespread consumer acceptance, thus helping the Company maintain its market share in both Ghee and Oils categories. Stronger SSE marketing efforts for premium corn oil are paying off for the AFIA brand, and it is likely that soon it will become the market leader in that premium segment.

Afia International Company–Jordan

Afia International Company is 75% owned by Savola Edible Oils and 25% by local investors

Afia International Company–Jordan, formerly known as Savola Jordan Company, changed its name in 2004 and converted to a joint stock company. The paid-up capital was also increased.

Afia International Company–Jordan continued breaking records year on year. Although the youngest unit of the Division, the Company dramatically increased sales from SR 129.8 million in 2003 to an impressive SR 293.9 million in 2004, mainly due to sales to Iraq. During the year, contracts under the United Nations Oil for Food Program exceeded 81 kMT.

Afia International Company–Jordan, despite its lean structure, managed to maintain its leadership position in Jordan and also became market leader of the premium corn oil segment in Lebanon and Syria.

Edible Oils

The AFIA brand continued to enjoy 41% market share in Jordan, 28% market share in Lebanon and 43% in neighboring Syria.

Savola Morocco Company (SMC)

Savola Edible Oils owns 51% of this Company, with 49% owned by a local investor

The Morocco joint venture is a greenfield launch with an annual production capacity of 50 kMT. When the commercial operation of Savola Morocco began, competitors responded with a costly price war, posing serious challenges to the project. Despite these very adverse conditions the morale of the whole organization remained strongly upbeat and serious efforts were made to overcome the new challenges.

Significantly, the AFIA and HALA brands increased their market share, with consumers appreciating the brands' innovative packaging and consistent high quality. Overall market share reached 4% whereas Company share in the modern trade reached nearly 20%. Savola Morocco remains confident that with the Grace of Allah, operations will continue to win consumer preference and the Company will become an even stronger player.

Savola Kazakhstan

Savola Kazakhstan is 90% owned by Savola Edible Oils, with 10% owned by a local company

Savola Kazakhstan began as a takeover of an existing edible oils factory in the Aktobe region of Kazakhstan. This acquisition was completed in October 2004, following Board approval in November 2003. Only three months of 2004 commercial operations were consolidated in SEO financial results.

The existing plant is capable of refining 22.5 kMT of soft oil with its own crushing facilities. Plans are currently being developed to expand these production capacities.

Savola Sudan (SSC)

Savola Sudan is owned 66% by Savola Edible Oils with the remaining 34% owned by other investors

The capital of Savola Sudan was increased in 2004 to US$8.0 million, up from US$5.5 million. This increase became necessary when local financial institutions failed to grant long-term loans to finance the plant. Major equipment is now on-site and plant erection is on track for commercial operations to begin in the first half of 2005.

Expansion Projects

The Edible Oils Division is constantly exploring investment opportunities in the Middle East, Asia and Africa to become a dominant player in manufacturing and sale of edible oils and fats.

Additional opportunities have been identified either for acquisition or to build new facilities in new countries and these have been initially approved by the Board of Directors for further exploration. Inshaallah, final recommendations will be made in the near future.

Packaging

The Savola Group operates its packaging business through its subsidiary the Savola Packaging System Company (SPS), which is wholly owned by The Group and one of its subsidiaries. SPS owns 100% of the Plastic Factory facilities in Jeddah and Riyadh.

The year 2004 was a challenging one for Savola Packaging Systems. Raw material prices touched their highest peaks in decades. However SPS succeeded in meeting its 2004 financial and strategic targets by increasing sales volumes, developing further new products and adding new export markets.

Gross sales in 2004 reached SR 156 million, an increase of 17% over 2003.

Sales of "carbonated soft drink" PET performs were especially strong, climbing 49% over 2003. "Dairy & juices" bottle and closure sales also jumped by 24% over the previous year. "Household & personal care" also delivered increases of almost 20% over 2003.

Plastics Factory has an annual production capacity of 37,000 MT for container production with injection moulding and blow moulding. The Jeddah state-of-the-art facility offers customers the benefit of an engineering lab and CAD design capabilities, along with sampling of the firm's plastic bottles and containers and the services of silkscreen printing, labelling and sleeving.

During 2004 SPS put more focus on export sales and worked closer with the top 20 customers on their strategic needs. Other areas of focus during 2004 were improved technical and customer support, greater value for money with competitive pricing, and just in time delivery.

A new department was created within SPS to offer customers new PET packaging solutions and innovative patented products. This New Business Development Department also drives internal operational changes for excellence in the PET segment, as well as developing further export markets.

The Plastic Factory has a strong sense of responsibility to the environment. As its commitment to greater recycling and recycle-ability, the Company was among the first to launch PET into the Saudi market and continues to maximize the use of PET for its great environmental benefits.

Sugar

The Savola Group has a 41% effective ownership of the United Sugar Company (USC). USC owns and operates the Kingdom's only sugar refinery and has created its own retail brands in a variety of packaging formats and price points

United Sugar Company (USC) operates a 1 million metric ton sugar refinery based in Jeddah, in collaboration with Tate & Lyle, the British multinational sugar trading and manufacturing company.

The refined sugars from Jeddah hold a 92% market share in Saudi Arabia and dominate all channels and sugar categories.

The annual 2004 USC sugar production volume grew to 941 kMT, 19.7% greater than 2003. In 2004 total sales volume also grew by 18% from 829 kMT in 2003 to 979 kMT. Strong exports sales by USC contributed substantially to this excellent growth. With the help of Allah, net sales for 2004 exceeded the SR 1 billion mark, growing by 22% over 2003.

During 2004 USC focused on building its sugar brand names, which are now dominant in market share in their product categories and have a high customer satisfaction. In June of 2004, the Company successfully launched Ziadah, a new extra-coarse, extra-white sugar in 10 kg packages, followed by the 5 kg pack in the 4th quarter 2004.

Sales of Al Osra and Ziadah, USC's retail brands, grew by 19% to 172 kMT in 2004. The market share of 68% was achievable as a result of the major improvement of the USC distribution and customer relationships over previous years.

United Sugar Company of Egypt (USCE)

As part of its expansion strategy, The Group successfully established a new company named "United Sugar Company of Egypt", with

Sugar

US$55 million paid up capital. The shareholding is 51% owned by USC, 18% by The Savola Group, with the remainder held by other partners.

United Sugar Company of Egypt (USCE) is constructing a sugar refinery to European Union standards at Sukhna Port, south of Suez, Egypt. The annual production capacity will be 750 kMT, of which 150 kMT is liquid sugar and 600 kMT granulated sugar. The total project investment is US$107 million and commercial operations are expected to start in early 2007.

For 2005 USC will continue to focus on lowering production costs with further fine-tuning of refinery processes. USC will also continue its drive to enhance Saudization which by end of 2004 reached 49%.

الأسرة
Al Osra

Almarai Company

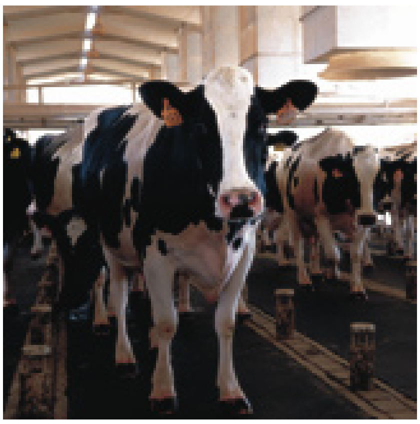
The Savola Group owns 40% of Almarai Company share capital.

The core business of Almarai Company is the manufacture, distribution and sale of its branded range of consumer food and beverage products. Sales by Almarai Company grew strongly in 2004, up by 7.5% over 2003 sales.

The Almarai product range consists of:

Fresh dairy includes laban, milk, zabadi, yoghurts and desserts. Fresh dairy includes all short-life products made from fresh milk. Almarai's fresh dairy range accounted for 63.2% of Company sales in 2004, and increased by 5.3% in the year. Fresh dairy products are offered in a wide variety of attractive packaging formats and sizes. Recent additions include ultra-filtrated milk and dairy-based desserts. Almarai also offers low-fat and no-fat (skimmed) versions of a number of these products.

Long-life dairy products include UHT milk, evaporated milk and sterilised cream. Long-life dairy products are made from fresh milk and may be distributed through a chilled or ambient system. This category accounted for 9.3% of Almarai sales in 2004, with a dramatic increase of 31.7% over 2003 results.



Fruit juice and drink products in both fresh and long-life packaging formats accounted for 7.3% of sales in 2004, increasing by 4% during the year.

Cheese and butter includes butter, butter ghee, a range of processed cheese products and natural cheeses such as mozzarella, halloumi and feta. These products accounted for 19.6% of Company sales in 2004, an increase of 5.5% over 2003.

Recent **non-dairy products** include tomato paste and jams, both illustrating the opportunity to further leverage the Almarai brand. This product group grew by 71.6% in 2004.

New product development is an important part of Almarai's growth plans. The Company will continue

Almarai Company

to extend its product range with new packaging formats, new product flavours and varieties.

New product development is a joint effort through all relevant sections of the Company, particularly the Marketing team and the Technical Research & Development team. Almarai's product design emphasizes the identification of emerging consumer needs. Then the teams focus on the development of viable, cost-effective solutions.

New products or product variations introduced in 2004 include Children's Dairy Snacks, Pineapple Juice, Red Grape, Low Fat Feta Cheese, Jams and new packaging formats.

Almarai has built a very efficient and highly advanced chilled distribution network. More than 600 refrigerated trucks deliver to 23,000 sales outlets in Saudi Arabia and the GCC countries. This chilled distribution ensures that consumers receive the safest and freshest Almarai products.

With the continued strong growth of Almarai, the Company intends to create 1,000 posts for young Saudis and will provide on-going training for Saudis at management level.

Herfy Food Services Company

Herfy is 70% owned by The Savola Group

Herfy Food Services continued its successes in 2004, strengthening its position as a leading Saudi fast food company. Herfy sales grew by 10% compared with 2003, attracting more customers with an effective marketing of the brand, thorough planning, relevant promotional campaigns and competitive pricing.

Expansion continued in 2004 in both Herfy and Al-Mahatah branded restaurants. During the year, Herfy opened 10 new restaurants in Riyadh and Khobar. Kingdom-wide, Herfy currently operates 100 restaurants, 50% of which provide home delivery services.

In 2004, Herfy inaugurated a major new food chain, focused on an attractive atmosphere and an authentic bakery for sweets, chocolates, cookies, cakes and pastries. Plans are underway for more openings during 2005.

In marketing, throughout the year Herfy creates special offers timed to the specific seasons and holidays.

Herfy and Pepsi signed an exclusivity contract to offer Pepsi beverages in all its restaurants. This ensures that both companies work as partners interested in each other's success.

Construction continued in the new beef and chicken meat processing and production plant to supply Herfy restaurants with their needs. The plant is expected to start commercial production in the second half of 2005, offering high quality meat products to Herfy restaurants and the Saudi market.

In its commitment to Saudization, Herfy was selected one of seven most distinguished companies, out of 800, for its active role in training and recruiting young Saudis.

HERFY

Saudi Arabia Glass Company (SAGCO)

The Savola Group owned 51% of SAGCO, and sold its full shareholding in 2004.

Saudi Arabia Glass Company was 51% owned by Savola Group. In 2004, Savola successfully sold its full shareholding in SAGCO and booked a SR 90 million capital gain. This step came as a continuation of The Savola Group Board of Directors "focusing strategy" decision to divest and withdraw totally from the glass sector.

The company, with the help of Allah, enjoyed another year of success and was on target to generate a profit in 2004 after experiencing some losses in the past years.

This achievement came as a result of reducing costs of sales. Emphasis was also on implementing other cost controls and increasing efficiencies throughout operations.

The plant enjoys strong repeat orders from domestic as well as international customers in Europe, US, Canada, Australia, New Zealand, South Africa and other African and Middle East countries.

Your search for quality glass ends here.

SG

AL JURAID & COMPANY
MEMBER FIRM OF
PRICEWATERHOUSECOOPERS

P.O. Box 16415
Jeddah 21464
Saudi Arabia

ABDUL MAJEED H. AJOOZAH

P.O. Box 32446
Jeddah 21428
Saudi Arabia

INDEPENDENT AUDITORS' REPORT

April 9, 2005

To the Shareholders of Savola Group Company:

We have audited the accompanying consolidated balance sheets of Savola Group Company (the "Company"), a Saudi joint stock company, and its subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company to comply with applicable articles of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements taken as a whole:

- Present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2004 and 2003 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Company and its subsidiaries; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

AL JURAID & COMPANY

By: ______________________
Sami B. Al Sarraj
License Number 165

الجريد وشركاه
محاسبون قانونيون معتمدون
AL-JURAID & COMPANY

ABDUL MAJEED H. AJOOZAH

By: ______________________
Abdul Majeed H. Ajoozah
License Number 58

Consolidated Balance Sheets

A Saudi joint stock company with a capital
of SR 1,000,000,000 fully paid up

The Savola Group

December 31, 2004 and 2003
(Saudi Riyals in thousands)

	Notes		2004		2003
Assets					
Current assets:					
Cash and cash equivalents	3	SR	263,786	SR	166,372
Available-for-sale investments	4		137,699		–
Accounts receivable - net	5, 6		618,088		294,190
Inventories - net	7		972,725		537,806
Prepayments and other assets	8		148,275		112,702
Total current assets	13		2,140,573		1,111,070
Investments - net	9		664,902		678,141
Goodwill - net	10		139,902		109,141
Other non-current assets - net	11		61,576		22,399
Fixed assets - net	12, 14		3,187,985		2,026,529
Total assets		**SR**	**6,194,938**	**SR**	**3,947,280**
Liabilities and shareholders' equity					
Current liabilities:					
Short-term bank borrowings	13	SR	992,163	SR	738,695
Current portion of long-term debt	14		164,857		72,558
Accounts payable	6, 15		748,721		416,706
Accrued expenses and other liabilities	16, 18		298,356		176,794
Total current liabilities	13		2,204,097		1,404,753
Long-term payables	17		121,938		109,308
Long-term debt	14		1,059,274		141,054
Employees' termination benefits	19		106,376		71,871
Total liabilities		**SR**	**3,491,685**	**SR**	**1,726,986**
Minority interests	6	SR	632,398	SR	370,452
Commitments and Contingencies	18,30		–		–
Shareholders' equity:					
Share capital	20		1,000,000		800,000
Share premium reserve	21		9,000		209,000
Statutory reserve	22		394,631		344,394
General reserve	23		254,000		254,000
Unrealized gain on investments	4		20,858		–
Foreign currency translation adjustments			(61,371)		(63,452)
Retained earnings			453,737		305,900
Total shareholders' equity		**SR**	**2,070,855**	**SR**	**1,849,842**
Total liabilities and shareholders' equity		**SR**	**6,194,938**	**SR**	**3,947,280**

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.
Commitments and contingencies detailed in notes 30 and 18.

December 31, 2004 and 2003
(Saudi Riyals in thousands)

	Notes		2004		2003
Revenues - Net	6	SR	5,601,979	SR	4,127,801
Cost of sales			(4,683,822)		(3,324,614)
Gross profit			**918,157**		**803,187**
Expenses:					
Selling and marketing	24		(453,865)		(376,278)
General and administrative	6, 25		(241,724)		(211,271)
Operating income			**222,568**		**215,638**
Other income (expenses):					
Investments income - net	26		362,773		174,985
Financing cost - net	13, 14		(55,308)		(30,379)
Other income - net	27		62,558		19,591
Income before Zakat and foreign income tax and minority interests			592,591		379,835
Zakat and foreign income tax	18		(19,174)		(7,005)
Income before minority interests			**573,417**		**372,830**
Share of minority interests in net income of consolidated subsidaries			(71,043)		(71,749)
Net income		**SR**	**502,374**	**SR**	**301,081**
Earnings per share (in Saudi riyals)	29	**SR**	25.12	**SR**	**15.05**

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

A Saudi joint stock company with a capital of SR 1,000,000,000 fully paid up

The Savola Group

December 31, 2004 and 2003
(Saudi Riyals in thousands)

	Notes		2004		2003
Share Capital:					
Balance at January 1		SR	800,000	SR	628,571
Bonus shares issued during year	20		200,000		171,429
Balance at December 31			1,000,000		800,000
Share Premium:					
Balance at January 1			209,000		380,429
Bonus shares issued during the year	20		(200,000)		(171,429)
Balance at December 31			9,000		209,000
Statutory Reserve:					
Balance at January 1			344,394		314,286
Transfer from retained earnings	22		50,237		30,108
Balance at December 31			394,631		344,394
General Reserve:					
Balance at January 1 and December 31			254,000		254,000
Unrealized Gains on Investments:					
Balance at January 1			–		–
Unrealized gains during the year	4		20,858		–
Balance at December 31			20,858		–
Foreign Currency Translation Adjustments:					
Balance at January 1			(63,452)		(49,866)
Adjustments during the year			2,081		(13,586)
Balance at December 31			(61,371)		(63,452)
Retained Earnings:					
Balance at January 1			305,900		190,269
Net income			502,374		301,081
Transfer to statutory reserve	22		(50,237)		(30,108)
Interim dividends	33		(190,000)		(153,142)
Final dividends for 2003	33		(112,000)		–
Directors' remunerations	28		(2,300)		(2,200)
Balance at December 31			453,737		305,900
Total shareholders' equity		**SR**	**2,070,855**	**SR**	**1,849,842**

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

December 31, 2004 and 2003
(Saudi Riyals in thousands)

		2004		2003
Cash flow from operating activities				
Net income	SR	502,374	SR	301,081
Adjustments to reconcile net income to net cash provided by operating activities:				
Investment income - net		(362,773)		(174,985)
Amortization		21,367		25,395
Depreciation		160,770		131,345
Loss (gain) on sale of fixed assets		463		(1,014)
Share of minority interests in the net income of the consolidated subsidiaries		71,043		71,749
Change in operating assets and liabilities:				
Accounts receivable		(323,898)		(13,952)
Inventories		(434,919)		(121,867)
Prepayments and other current assets		(35,573)		(20,598)
Accounts payable		378,391		24,752
Accrued expenses and other current liabilities		119,262		32,593
Employees' termination benefits		34,505		5,753
Net cash provided by operating activities		**131,012**		**260,252**
Cash flows from investing activities				
Additions to available-for-sale investments		(518,307)		(141,471)
Proceeds from sale of available-for-sale investments		519,640		172,287
Dividend received from an associated company		120,990		112,924
Proceeds from sale of investments - net		102,876		394
Additions to investments		(30,404)		(19,584)
Additions/adjustments to goodwill - net		(24,720)		(5,586)
Additions to other non-current assets		(46,504)		(19,089)
Proceeds from sale of fixed assets		17,608		–
Net beginning balance of fixed assets of acquired subsidiaries		(278,553)		–
Additions to fixed assets - net		(1,061,744)		(307,358)
Net cash used by investing activities		**(1,199,118)**		**(207,483)**

December 31, 2004 and 2003
(Saudi Riyals in thousands)

		2004		2003
Cash flow from financing activities				
Net change in short-term bank borrowings	SR	253,468	SR	454,560
Repayment of long-term debt		(72,558)		(81,765)
Additions to long-term debt		1,083,077		3,480
Change in minority interests		190,903		(85,335)
Dividends paid		(289,370)		(284,012)
Net cash provided by financing activities		**1,165,520**		**6,928**
Net change in cash and cash equivalents	SR	97,414	SR	59,697
Cash and cash equivalents at beginning of year		166,372		106,675
Cash and cash equivalents at end of year		**263,786**		**166,372**
Supplemental schedule of non-cash information				
Directors' remunerations	SR	2,300	SR	2,200
Unrealized gains on investments		20,858		–
Foreign currency translation adjustments		(2,081)		13,586
Offset of investment under liquidation against balance payable to investee		46,376		–
Investment in subsidiary not consolidated for that year		–		46,376
Reversal of excess provision for goodwill		18,000		–

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

1. The Company, its subsidiaries and nature of business

Savola Group Company (the "Company"), a Saudi joint stock company, was formed under the Regulations for Companies in the Kingdom of Saudi Arabia per Royal Decree number M/21 dated Rabi-ul-Awal 29, 1398H (March 9, 1978). The Company's commercial registration number 4030019708 was issued in Jeddah on Rajab 21, 1399H (June 16, 1979). The purpose of the Company includes the manufacturing and marketing of vegetable oils and to set up related industries, retail outlets, dairy products, snack foods, packing materials, exports and imports, commercial contracting, trade agencies and development of agricultural products.

The Company's head office is located at the following address:

Saudi Business Center
Madinah Road
P.O. Box 14455
Jeddah 21424
Kingdom of Saudi Arabia

The Company has investments in the following consolidated subsidiaries (collectively the "Group"), which operate under separate commercial registrations and are principally engaged in the manufacturing and marketing of food products, retailing, packaging materials and fast food operations:

Name	Country of Incorporation	Effective ownership interest (%) at December 31,	
		2004	2003
Savola Packaging Systems Limited ("SPS")	Saudi Arabia	100	100
Utur Packaging Materials Company Limited	Saudi Arabia	100	100
Royah Company for the Development of Information Systems & Computer Services	Saudi Arabia	100	100
Savola Trading International Limited ("STI")	Virgin Islands	100	100
Tayseer FZCO ("Tayseer")	UAE	100	100
Azizia Panda Trading Company ("APTC")	Saudi Arabia	100	100
Al Azizia - Panda United Company (formerly Al Azizia - Panda Al Qassim Company)	Saudi Arabia	100	100
Savola Edible Oils Company Limited ("SEO")	Saudi Arabia	90.63	90.43
Herfy Food Services Company Ltd. ("Herfy")	Saudi Arabia	70	70
Savola Industrial Investments Co. ("SIIC")	Saudi Arabia	63.5	63.5
Modern Marafiq for Real Estate Development Co. Ltd. ("MMRDC")	Saudi Arabia	100	–

SEO also has the following consolidated subsidiaries:

Name	Country of Incorporation	Effective ownership interest (%) at December 31,	
		2004	2003
Malintra Holdings	Luxembourg	100	100
Afia International Company, Jordan (formerly Savola Jordan Company)	Jordan	75	75
Savola Morocco Company	Morocco	51	51
Savola Sime Foods Limited ("SSFL")	Virgin Islands	50	50
Savola Edible Oils (Sudan) Ltd. (under - development) ("SSC")	Sudan	65.9	–
Inveskz Inc. (Inveskz)	Virgin Islands	90	–
Savola Behshahr Company ("SBeC")	Iran	49	–

SIIC has a 64.79% ownership interest in United Sugar Company Ltd. ("USC"), a limited liability company registered in Saudi Arabia, which was consolidated in SIIC's financial statements before the preparation of these consolidated financial statements.

The Group also has an effective ownership interest of 49.9% in Savola Sime Egypt ("SSE"), a limited liability company registered in the Arab Republic of Egypt, which was also consolidated in SSFL's financial statements (having 75% ownership interest in SSE) before the preparation of these consolidated financial statements. The Group has significant control over SSE.

The Company has set up MMRDC, APTC, STI and Tayseer as limited liability companies for the purpose of trading and investing in real estate. These companies have not commenced operations as of December 31, 2004.

During 2003, SSC was set up as limited liability company in Sudan for the purpose of manufacturing and trading in edible oil products. As of December 31, 2004, SSC was still under development. Management expects that it will become operational in 2005.

During 2004, SEO acquired 90% ownership interest in Inveskz Inc., an international business company registered in the British Virgin Islands. The main purpose of Inveskz is to hold an investment in a Kazakhstan-based company engaged in the production and distribution of edible oil products.

During 2004, SEO acquired 49% ownership interest in SBeC, a closed joint stock company registered in Iran. The main purpose of SBeC is to as hold investments in two Iranian publicly traded joint stock companies engaged in the production and distribution of edible oil products and margarine. SEO has significant control over SBeC.

2. Summary of significant accounting policies

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by the revaluation of available-for-sale investments at fair value through equity, and in compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants (SOCPA). Significant accounting policies are summarized as follows:

Basis of consolidation – The consolidated financial statements include the financial statements of the Company and its subsidiaries set forth in Note 1 above. All significant intercompany transactions and balances have been eliminated in consolidation.

One of the consolidated subsidiaries has a fiscal year that ends on March 20, 2005. Accordingly, the interim financial statements of that subsidiary covering the nine month ended December 20, 2004 have been included in the accompanying consolidated financial statements, no significant events or transactions have subsidiary taken place between December 20, 2004 and December 31, 2004 for the subsidiary.

Use of estimates – The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Cash and cash equivalents – Cash and cash equivalents comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with the original maturities of three months or less, which are available to the Company without any restrictions (See Note 3 for restricted cash).

Accounts receivable – Accounts receivable are carried at original amounts less provision made for doubtful accounts. A provision for doubtful accounts is established when there is significant doubt that the Group will not be able to collect all amounts due according to the original terms of accounts receivable.

Inventories – Inventories are valued at the lower of cost or market. Cost is determined on the moving-average method. Cost of finished goods and work-in-process includes the cost of raw materials, direct labor and production overheads.

Investments in unconsolidated subsidiaries – Investments in unconsolidated subsidiaries, which are either under formation or liquidation, or where the control does not rest with the Group, are not consolidated in these financial statements but are accounted for using the equity method.

Investments in associated companies – Investments in associated companies, in which the Group has an effective ownership interest between 20% and 50%, are accounted for using the equity method. According to this method, investments are originally recorded at cost and then adjusted to reflect the Group's share in the profits or losses of the investee companies and their distribution of profits. The Group's share of profits or losses of the investee companies is credited or charged to the consolidated statement of income currently.

Available-for-sale securities and other equity investments – Available-for-sale securities principally consist of less than 20% equity investments in various locally listed companies. The management intends to dispose of these investments within a period of one year from the date of the consolidated balance sheet date and, hence, such investments have been classified as current assets. Other equity investments, which are not held for trading purposes, principally consist of less than 20% equity investments in various limited liability companies. These investments are recorded at cost when acquired. The carrying values of these investments are adjusted based on the fair values of these companies at the date of the consolidated balance sheet, unless it is determined that the fair values cannot be estimated, in which case such investments are reflected at cost. Unrealized gains or losses resulting from changes in fair values, if material, are reported as a separate component of shareholders' equity. On disposal, such unrealized gains or losses are charged to the consolidated statement of income. Permanent diminution, if any, in the value of such investments is charged to the consolidated statement of income currently.

Goodwill – Goodwill represents the excess cost of investments over the fair value of the net assets acquired, and is being amortized using the straight-line method over a period not exceeding 20 years.

If the cost of the acquired investment is less than the fair value of the acquisition date such difference is adjusted by reducing the fair value of the non-current assets of the acquired investee in proportion with their book values.

Other assets

i) Deferred charges - Deferred charges consist of expenses incurred by the Group on setting up new retail outlets and other projects. Such expenses are amortized using the straight-line method over the related estimated economic lives not exceeding five years.

Deferred charges also include SIDF loan approval fees and related costs, which are deferred and are being amortized using the straight-line method over the period of the respective loans.

ii) Premium on leased land - Premium on leased land, which was paid by the Company to a third party to acquire the rights to lease the land from a government agency, is recorded at cost, net of accumulated amortization. Amortization is calculated using the straight-line method over the life of leased land or 20 years, whichever is lower.

Fixed assets – Fixed assets are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Land	–
Buildings	12.5 - 33
Machinery and equipment	3 - 30
Furniture and office equipment	4 - 11
Motor vehicles	4 - 10
Leasehold improvements	3 - 25

Interest costs on borrowings to finance the construction of fixed assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed when incurred.

Expenditures for maintenance and repairs that do not materially extend the asset's life are included in expenses.

Impairment of long-lived assets – Fixed assets and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Borrowings – Borrowings are recognized at the proceeds received, net of transaction costs incurred.

Other provisions – Other provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Employees' termination benefits – Employees' termination benefits are accrued in accordance with the labor and workman laws in the countries of incorporation of the Group member companies and charged to the consolidated statement of income currently. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should he leave at the consolidated balance sheet date. Termination payments are based on the conditions stated in the laws of those countries.

Revenue recognition – Revenues are recognized upon delivery of products or providing services to the customers, and are recorded net of discounts. Rental income is recognized over the lease terms, and is included under revenues.

Revenues are principally derived from manufacturing, wholesale and retail business in food and related products.

Operating leases – Rentals in respect of operating leases are charged to the consolidated statement of income over the terms of the leases.

Selling, marketing, general and administrative expenses – Selling, marketing, general and administrative expenses include direct and indirect costs not specifically part of cost of sales as required under generally accepted accounting principles. Allocations between cost of sales and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

Zakat and income tax – The Company and its Saudi Arabian subsidiaries are subject to zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). The foreign subsidiaries are subject to tax regulations in their countries of incorporation. Zakat and income tax related to foreign subsidiaries are charged to the consolidated statement of income currently.

Foreign currency translation – The Company's books of account are maintained in Saudi riyals. Foreign currency transactions are translated into Saudi riyals at the market rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are adjusted to reflect their Saudi riyal equivalents as of the consolidated balance sheet date. Exchange adjustments, which were not significant for 2004 and 2003, are charged or credited to the consolidated statement of income currently.

Assets and liabilities of foreign subsidiaries are translated to saudi riyals at the exchange rates in effect at the date of the consolidated financial statements. The components of foreign subsidiaries' equity accounts, except retained earnings, are translated at the exchange rates in effect at the dates the related items originated. The elements of foreign subsidiaries' income statements are translated using the weighted-average exchange rate for the year. Adjustments resulting from the translation of foreign subsidiaries' financial statements into Saudi riyals, if material, are reported as a separate component of shareholders' equity in the accompanying consolidated financial statements.

Dividends – Interim dividends are recorded in the Group's consolidated financial statements in the period in which they are approved by the Boards of Directors. Final dividends are recorded in the period in which they are approved by the shareholders.

Reclassifications – Certain amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

3. Cash and cash equivalents

Cash and cash equivalents at December 31 are comprised of the following (000's):

		2004		2003
Cash at banks - current accounts	SR	156,734	SR	101,894
Time deposits		97,801		56,043
Cash in hand		9,251		8,435
Total	**SR**	**263,786**	**SR**	**166,372**

Time deposits at December 31, 2004 include restricted deposits of approximately SR 30 million (2003 - SR 47 million), which were blocked against bank facilities granted to certain Group companies.

4. Available for sale investments

Available-for-sale-investments represent marketable equity securities of local joint stock companies and are fair valued at December 31, 2004. Fair value is determined by reference to Stock Exchange quoted prices.

The movements in the available-for-sale investments account for the years ended December 31 are as follows (000's):

		2004		2003
Balance at January 1	SR	–	SR	–
Additions during the year		518,307		141,471
Disposals during the year		(401,466)		(141,471)
Net unrealized gains credited to equity account		20,858		–
Balance at December 31	**SR**	**137,699**	**SR**	**–**

5. Accounts receivable

Accounts receivable at December 31 are comprised of the following (000's):

		2004		2003
Trade accounts receivable	SR	524,093	SR	203,739
Other accounts receivable		58,301		76,991
Due from related parties (Note 6)		55,044		34,429
Total		**637,438**		**315,159**
Less allowance for doubtful accounts		(19,350)		(20,969)
Accounts receivable - net	SR	618,088	SR	294,190

6. Related party matters

During the course of its operations, the Group had the following significant transactions with its related parties during the years ended December 31 (000's):

		2004		2003
Shareholders of a subsidiary				
Revenues - net	SR	525,245	SR	509,883
Technical services		12,606		13,276
Other		771		2,916

Pricing and terms of payment for these transactions are approved by the managements of the Group and the related parties.

Certain Group companies make wholesale purchases of goods and commodities for resale in the retail operations, from entities affiliated to the Company or to certain shareholders. Such purchases are made in the course of the routine retail operations. The terms of such transactions are determined by the management with reference to the wholesale market prices of such goods and commodities.
The Company also arranges for credit facilities to its affiliated entities through local commercial banks.

The balances at December 31, principally resulting from the aforementioned transactions, are as follows (000's):

		2004		2003
Due from related parties:				
Certain shareholders of USC	SR	50,655	SR	30,418
Savola Morocco Company		–		1,101
Other		4,389		2,910
Total	**SR**	**55,044**	**SR**	**34,429**
Due to related parties:				
Savola Bahrain Company (see Note 9 (b))	SR	–	SR	46,376
Savola Snacks Foods Company (see Note 9 (b))		11,321		11,773
Tate and Lyle Investments (Gulf States) Ltd.		5,226		6,715
Other		–		331
Total	**SR**	**16,547**	**SR**	**65,195**

Minority interests account includes an advance payment of SR 69.8 million as of December 31, 2004 and 2003, which was made by Al-Muhaidib Holding Company for Trade and Industry ("MHC"), a minority shareholder in USC, to SIIC for the purpose of increasing MHC's effective share in the capital of USC. This amount does not bear any finance charges.

7. Inventories

Inventories at December 31 are comprised of the following (000's):

		2004		2003
Raw and packing materials	SR	361,768	SR	164,644
Finished goods		318,221		250,264
Materials in transit		147,402		53,910
Spare parts not held for sale		115,198		68,994
Work-in-process		42,512		13,598
Total		**985,101**		**551,410**
Less provision for slow moving items		(12,376)		(13,604)
Inventories - net	**SR**	**972,725**	**SR**	**537,806**

8. Prepayments and other current assets

Prepayments and other current assets at December 31 are comprised of the following (000's):

		2004		2003
Advances to vendors and other	SR	59,306	SR	51,932
Prepaid rental charges		32,938		27,971
Other assets and prepayments		56,031		32,799
Total	**SR**	**148,275**	**SR**	**112,702**

9. Investments

Investments at December 31 are comprised of the following (000's):

		2004		2003
Investments in associated companies - net	SR	621,071	SR	590,321
Investments in unconsolidated subsidiaries		8,804		67,820
Other equity investments - net		35,027		20,000
Investments - net	**SR**	**664,902**	**SR**	**678,141**

The movements in the investments accounts for the years ended December 31 are as follows (000's):

		2004		2003
Balance at January 1	SR	678,141	SR	468,406
Share of profit from an associated company (Note 26)		141,835		140,653
Additions to investments		30,404		14,186
Investments disposed off, net of related provisions		(3,506)		(500)
Investment consolidated		(10,780)		–
Dividends received from an associated company		(120,990)		–
Investment in SBC offset against balance payable		(44,730)		–
Investment in SBC, net of profit share		–		44,730
Investment in SSFC, net of profit share		–		8,804
Additions to provisions against investments		(5,472)		1,862
Balance at December 31	**SR**	**664,902**	**SR**	**678,141**

a) Investments in associated companies at December 31 are comprised of the Group's effective ownership interests in the following limited liability companies (000's):

	Effective ownership interest (%)		2004		2003
Al Marai Company Ltd. - Saudi Arabia	40.33	SR	611,166	SR	590,321
Equity investments in Iran	Various		9,905		–
Shandong Xiwang Savola Oils and Fats Company Ltd. ("Shandong") - China	25		5,472		–
Arabian Saline Water Technology Co. Ltd. (Behar) - Saudi Arabia	30		209		209
Saudi Arabian Glass Company ("SAGCO") - Saudi Arabia	–		–		71,171
Wazir Ali Industries Ltd. - Pakistan	–		–		2,446
			626,752		664,147
Less provision for decline in the value of investments in associated companies			(5,681)		(73,826)
Investments in associated companies - net		**SR**	**621,071**	**SR**	**590,321**

Equity investments in Iran consist of Group companies' investments in unlisted companies in Iran, which are engaged in oil seeds planting and vegetable oil trading business. Ownership interests in such companies vary from 5% to 20%.

During the year, the Group sold its investment in SAGCO for SR 90 million. The investment was fully provided for. The resultant gain on sale is included in investments income (See Note 26). SAGCO was not consolidated in 2003 because the control of SAGCO did not rest with the Group.

The investment in Shandong relates to an investment in a newly set up limited liability company registered in China for the purpose of crushing oil seeds and refining, processing and packing of edible oils. During 2004, the Group provided for its investment in Shandong due to permanent decline in its value.

The investment in Behar was also fully provided for by the Group as of December 31, 2004 and 2003 because management believes there is a permanent decline in its value. The Group has not accounted for its share in the results of Behar for 2004 and 2003 as the net carrying value of such investment is nil at December 31, 2004 and 2003, and management believes that no additional losses will be incurred by the Group.

During the year, the Group disposed off its investment in Wazir Ali Industries Ltd. which was also fully provided for. The result of such sale is included in investments income (See Note 26).

b) Investments in unconsolidated subsidiaries at December 31 are comprised of the following (000's):

		2004		2003
Savola Snack Foods Company Ltd. ("SSFC")	SR	8,804	SR	8,804
Savola Bahrain Company ("SBC")		–		48,236
Savola Morocco Company ("SMC")		–		10,780
Total	**SR**	**8,804**	**SR**	**67,820**

Following is a summary of the combined financial information for the unconsolidated subsidiaries as of December 31, and for the years then ended (000's):

		2004		2003
Net income	SR	–	SR	2,739
Total assets		11,321		71,459
Total liabilities		2,517		3,639

The Group's effective ownership interest in SBC is 100% (90% through SEO and 10% through the Company). On September 17, 2003, the shareholders of SBC resolved to liquidate SBC and appointed a liquidator; thus it was not consolidated in 2004 and 2003. The liquidator prepared the closing financial position of SBC as of April 30, 2004, which was approved by the SBC's shareholders on June 26, 2004. As of the closing date, the recorded investment in SBC was offset against the recorded balance payable to SBC (See Note 6). As of December 31, 2004, the liquidator has substantially completed the required legal liquidation procedures and is awaiting the cancellation of SBC's commercial registration by the Bahrain Ministry of Commerce.

SSFC did not have any operations during 2004 and 2003. During 2002, the Company resolved to liquidate SSFC and appointed a liquidator; thus it was not consolidated in 2004 and 2003. Currently, SSFC is under the liquidation process. No significant gain or loss is expected upon liquidation.

SMC was set up in 2003 and was under development at December 31, 2003. It became operational in 2004 and hence, it was consolidated in the accompanying consolidated financial statements for 2004.

c) Other equity investments at December 31 are comprised of the Group's effective ownership interests in the following limited liability companies (000's):

		2004		2003
Al-Azizia Commercial Investment Co. ("ACI") - Saudi Arabia	SR	41,091	SR	41,091
Investment in Egypt		15,027		–
Total of equity other investments		56,118		41,091
Less: Provision for permanent decline in the value of other equity investments		(21,091)		(21,091)
Other equity investments - net	**SR**	**35,027**	**SR**	**20,000**

The investment in ACI represents 10% interest in a limited liability company engaged in investing activities. The Company made a provision of SR 21 million against this investment at December 31, 2004 and 2003 as management believes there is a permanent decline in the value of this investment.

Investment in Egypt at December 31, 2004 represents the amount paid by a Group company during 2004 for setting up a subsidiary in the Arab Republic of Egypt. The purpose of the subsidiary is to own and operate a cane sugar refinery in Egypt and to sell and distribute refined sugar and related by-products. The total proposed capital of the subsidiary is SR 206.25 million (US$ 55 million). The Group will effectively hold 69% share in such subsidiary, and the remaining 31% will be held by other Saudi and foreign shareholders. The legal procedures to register the subsidiary are still in process.

10. Goodwill

Goodwill at December 31 is comprised of the following (000's):

		2004		2003
Cost				
Balance at January 1	SR	261,321	SR	276,884
Additions		14,605		1,886
Provisions and adjustments		27,155		(17,449)
Balance December 31		303,081		261,321
Accumulated amortization				
Balance at January 1		(106,855)		(91,930)
Charge for the year		(14,040)		(14,925)
Balance at December 31		(120,895)		(106,855)
Offset against minority interests		(42,284)		(45,325)
Goodwill - net	**SR**	**139,902**	**SR**	**109,141**

The goodwill being offset against the minority interests represents that part of the goodwill in the books of SSFL, which relates to the minority interests in SSFL. On consolidation, the gross amount of SSFL's goodwill has been included in the consolidated accounts of the Group. However, for presentation purposes, it is being netted off against minority interests to reflect the Group's share of goodwill.

11. Other non-current assets

Other non-current assets at December 31 are comprised of the following:

		Deferred charges		Premium on leased land		Total
Cost						
Balance at January 1, 2003	SR	159,313	SR	–	SR	159,313
Write-off of fully amortized deferred charges		(90,521)		–		(90,521)
Additions during the year		19,089		–		19,089
Balance at December 31, 2003		87,881		–		87,881
Additions during the year		33,704		12,800		46,504
Balance at December 31, 2004		121,585		12,800		134,385

		Deferred charges		Premium on leased land		Total
Accumulated amortization						
Balance at January 1, 2003	SR	(145,533)	SR	–	SR	(145,533)
Write-off of fully amortized deferred charges		90,521		–		90,521)
Additions during the year		(10,470)		–		(10,470)
Balance at December 31, 2003		(65,482)		–		(65,482)
Additions during the year		(7,327)		–		(7,327)
Balance at December 31, 2004		(72,809)		–		(72,809)
Net balance at December 31, 2004	**SR**	**48,776**	**SR**	**12,800**	**SR**	**61, 576**
Net balance at December 31, 2003		22,399		–		22,399

12. Fixed assets

Fixed assets at December 31 are comprised of the following (000's):

		2003		Beginning balance of acquired investees		Additions		Disposals		2004
Cost										
Land	SR	600,578	SR	8,836	SR	478,317	SR	(8,813)	SR	1,078,918
Buildings		561,634		53,061		71,483		(1,309)		684,869
Machinery and equipment		1,364,407		136,637		155,613		(9,521)		1,647,136
Furniture and office equipment		197,992		10,144		26,619		(212)		234,543
Motor vehicles		87,678		11,219		7,439		(8,501)		97,835
Leasehold improvements		151,986		5		148,343		(3,654)		296,680
Construction in progress		180,330		119,868		173,930		(3,885)		470,243
Total		3,144,605		339,770		1,061,744		(35,895)		4,510,224
Accumulated depreciation										
Buildings		170,400		16,687		24,433		(159)		211,361
Machinery and equipment		681,694		35,091		92,607		(8,298)		801,094
Furniture and office equipment		150,154		3,982		17,856		(170)		171,822
Motor vehicles		67,003		5,457		10,406		(7,868)		74,998
Leasehold improvements		48,825		-		15,468		(1,329)		62,964
Total		1,118,076		61,217		160,770		(17,824)		1,322,239
Fixed assets - net	**SR**	**2,026,529**							**SR**	**3,187,985**

Additions include SR 11.6 million in respect of interest capitalized during 2004 (2003 - Nil). The rate used to determine the amount of finance costs capitalized during 2004 was 3.0%.

Construction in progress at December 31, 2004 and 2003 principally relates to the upgrading and enhancing of the refinery and the packaging process of SEO, expansion of the sugar refinery of USC, and the construction of hypermarkets for the Company.

Under the terms of land lease agreements with Jeddah Industrial City ("JIC") and Jeddah Islamic Port ("JIP"), certain Group companies have various renewable operating leases for land upon which their production facilities are located. Annual lease and service charge payments to JIC and JIP are nominal.

See Note 14 with respect to the pledge of certain fixed assets of the Group as collateral to Saudi Industrial Development Fund and commercial banks.

13. Short-term bank borrowings

Short-term bank borrowings consist of bank overdrafts, short-term loans and a Murabaha financing arrangement, and bear financing charges at the prevailing market rates. Some of these short-term loans are secured by corporate guarantees of the Company and other Group companies.

The Group has unused bank borrowings facilities of SR 725 million as of December 31, 2004. At December 31, 2004, the Groups' consolidated total current liabilities exceeded its total current assets by SR 64 million. Management believes that these unused facilities will be utilized to meet the Group's financial obligations as they become due.

14. Long-term debt

Long-term debt at December 31 is comprised of the following (000's):

		2004		2003
Saudi Industrial Development Fund ("SIDF")				
USC	SR	137,877	SR	183,937
Herfy		3,510		–
SPS		–		1,500
Total		**141,387**		**185,437**
Commercial banks				
The Company		740,000		25,000
SEO		342,744		3,175
Total		**1,082,744**		**28,175**
Total long-term debt		**1,224,131**		**213,612**
Less current portion:				
SIDF		(60,000)		(61,500)
Commercial banks		(104,857)		(11,058)
Total		(164,857)		(72,558)
Long-term debt	SR	1,059,274	SR	141,054

SIDF loans

The SIDF loan to USC bears annual service fee, which amounted to SR 2.8 million during 2004 (2003 - SR 2.7 million). The SIDF loan agreement includes certain covenants which provide, among other things, restrictions relating to the payment of dividends, capital expenditures and rental charges, and the maintenance of certain financial ratios. All of USC's fixed assets, which have a net carrying value of SR 595.2 million at December 31, 2004, are pledged as collateral under the SIDF loan agreement.

The SIDF loan to Herfy was obtained in 2004 to partially finance the construction of Herfy's meat factory in Riyadh. The total loan facility amount is SR 17.1 million, out of which SR 3.5 million was drawn down as of December 31, 2004. All of Herfy's fixed assets, which relate to such meat factory and have a net carrying value of SR 11 million at December 31, 2004, are pledged as collateral under the SIDF loan agreement. The SIDF loan is also secured by a promissory note signed by a minority shareholder of Herfy.

Commercial bank loans of the Company

The commercial bank loans of the Company, which are unsecured loans, were obtained from various local and international banks and bear finance charges at the prevailing market rates. The related loan agreements include certain covenants relating to the maintenance of certain financial ratios.

Commercial bank loans of SEO

The commercial bank loans of SEO were obtained from various local and international banks by SEO and its subsidiaries. The related loan agreements include certain covenants relating to the maintenance of certain financial ratios. Such loans include a loan of SR 250 million, which is secured by a corporate guarantee of the Company and a letter of understanding issued by SEO to the commercial bank assigning its rights, benefits and title to the dividends and distributions on its shareholding in certain of its subsidiaries. Also, some of those loans, which relate to SEO's subsidiaries, are secured by a lien over the fixed assets of such subsidiaries, which have a net carrying value of SR 17.6 million at December 31, 2004.

The repayment schedule of the aggregate long-term debt outstanding at December 31, 2004 is summarized as follows (000's):

Year ending December 31,		
2005	SR	164,857
2006		478,096
2007		107,661
2008		190,593
2009		178,468
2010		104,456
Total	**SR**	**1,224,131**

15. Accounts payable

Accounts payable at December 31 are comprised of the following (000's):

		2004		2003
Trade accounts payable	SR	536,099	SR	303,054
Non-trade accounts payable		196,075		48,457
Due to related parties (Note 6)		16,547		65,195
Total	**SR**	**748,721**	**SR**	**416,706**

Non-trade accounts payable at December 31, 2004 include SR 72 million (2003 - Nil), which represent the unpaid portion of the acquisition cost of an investment acquired by the Group during the year.

16. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities at December 31 are comprised of the following (000's):

		2004		2003
Accrued charges	SR	180,412	SR	98,478
Other provisions		77,539		45,824
Advertising		35,962		29,280
Zakat and income taxes provision (Note 18)		1,880		1,012
Directors' remunerations (Note 33)		2,563		2,200
Total	SR	298,356	SR	176,794

17. Long-term payables

Long-term payables represent dividends declared in prior years and share fractions, which resulted from split of shares in prior years. Such amounts have not yet been claimed by the respective shareholders for several years. In the opinion of management, such amounts are unlikely to be paid during 2005 and, accordingly, they have been classified under non-current liabilities.

18. Zakat and foreign income tax

Zakat and foreign income taxes are charged to the consolidated statement of income. The Company and its subsidiaries file separate zakat and income tax declarations, which are filed on unconsolidated basis. Significant components of zakat base of each Saudi company are comprised of shareholders' equity, provisions at the beginning of the year and adjusted net income, less deductions for the net book value of fixed assets, investments and certain other items.

Zakat and foreign income tax included in the consolidated statements of income for the years ended December 31 are as follows (000's):

		2004		2003
Zakat for the Company	SR	868	SR	–
Zakat of Saudi consolidated subsidiaries and foreign income tax of non-Saudi consolidated subsidiaries		18,306		7,005
Total	**SR**	**19,174**	**SR**	**7,005**

Provision for Zakat

The following is a summary of movements in the Company's provision for zakat account, which is included in accrued expenses, for the years ended December 31 (000's):

		2004		2003
Balance at January 1	SR	1,012	SR	1,073
Adjustments /charge during the year		868		(61)
Balance at December 31	**SR**	**1,880**	**SR**	**1,012**

Zakat Status

The Company has obtained the final zakat certificates through the year ended December 31, 1997. The Company is in process of filing its 2003 final zakat return.

The DZIT assessed an additional zakat liability of SR 16.8 million for the years 1998 to 2002, against which the Company filed an objection letter. Management believes that the DZIT will reverse its assessment. Accordingly, such amount was not provided for in the accompanying consolidated financial statements.

The subsidiaries received final zakat certificates for certain years and provisional zakat certificates for other years. They have also received queries from the DZIT for the open years, for which replies have been / will be filed by the respective companies.

During 2002, a Group member company received assessments from the DZIT concerning their zakat declarations for the years 1995 to 2001, in which the DZIT assessed an additional zakat liability of approximately SR 0.5 million. Management of the Group company has given a bank guarantee to the DZIT for such amount and has appealed such assessments. Accordingly, no liability for such assessment has been recorded in the accompanying consolidated financial statements.

During 2003, a former Group company, namely Saudi Paper Cups and Containers Co. Ltd., received final zakat assessments for the years 1995 to 2001 in which the DZIT claimed additional zakat liability of SR 2.2 million from the Company, being the former majority shareholder. Management of the Group company has given a bank guarantee to the DZIT for such amount and has appealed such assessments. Accordingly, no liability for such assessment has been recorded in the accompanying consolidated financial statements.
Also, during 2004 and 2003, various Group companies received assessments from the DZIT concerning their zakat declarations for the open years, in which the DZIT assessed additional zakat liabilities of approximately SR 16.1 million. The companies objected to such assessments and filed their cases with the Appeal Committee. Management believes that no additional zakat liability will ultimately be payable and, accordingly, no provision has been recorded in the accompanying consolidated financial statements for such amount.

Any additional zakat liability that may be assessed by the DZIT upon the finalization of the Group companies' zakat returns up to 2003 will be recorded by the Group companies when finalized with the DZIT.

19. Employees' termination benefits

The movements in employees' termination benefits for the years ended December 31 are as follows (000's):

		2004		2003
Balance at January 1	SR	71,871	SR	66,118
Additions / acquisitions during the year		45,662		7,606
Payments / adjustments during the year		(11,157)		(1,853)
Balance of December 31	**SR**	**106,376**	**SR**	**71,871**

20. Share capital

The shareholders of the Company, in their extra-ordinary general assembly meeting held on May 18, 2004, resolved to increase the Company's share capital by issuing one bonus share for every four shares outstanding at that date. As a result, the share capital increased to SR 1 billion and the number of shares to 20 million shares. Such increase in share capital was affected by a transfer of SR 200 million from share premium reserve account.

The Company's share capital of SR 1 billion at December 31, 2004 (2003 - SR 800 million) consists of 20 million (2003 - 16 million) fully paid and issued shares of SR 50 each.

The Board of Directors, in its meeting held on September 15, 2004, resolved to further increase the Company's share capital by issuing 5 million new shares at par value of SR 50 each, and at a premium of SR 350 per share, to the existing shareholders as of that date. Currently, the Company is in process of obtaining regulatory approval for this increase in capital.

21. Share premium reserve

Share premium reserve at December 31, 2004 and 2003 represents the difference between the par value and the fair value of the shares issued in prior years, less transfers to share capital (See Note 20). This reserve is not currently available for distribution to the shareholders.

22. Statutory reserve

In accordance with its Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer each year 10% of its net income to a statutory reserve until such reserve equals 50% of its share capital. Such reserve is not currently available for distribution to the shareholders.

23. General reserve

In previous years, the shareholders resolved to set aside a general reserve by appropriation from retained earnings to meet future expansion in the Company's business. Such reserve can be increased or decreased by a resolution from the shareholders.

24. Selling and marketing expenses

Selling and marketing expenses for the years ended December 31 are comprised of the following (000's):

		2004		2003
Staff cost	SR	171,381	SR	146,546
Advertising		122,904		84,358
Depreciation		50,728		42,804
Rent (see Note 32)		37,092		23,748
Utilities		32,812		29,877
Repairs, maintenance and consumables		8,769		7,382
Fuel and oil		3,632		4,950
Insurance		2,034		1,756
Travel		1,315		2,616
Telecommunication		224		1,273
Other		22,974		30,968
Total	**SR**	**453,865**	**SR**	**376,278**

25. General and administrative expenses

General and administrative expenses for the years ended December 31 are comprised of the following (000's):

		2004		2003
Staff cost	SR	133,528	SR	110,103
Amortization of goodwill		14,040		14,925
Depreciation		12,511		9,464
Professional fees		10,212		10,753
Travel		7,666		5,347
Utilities, telephone and communication		7,506		7,087
Amortization of deferred charges		7,327		10,470
Training		4,736		3,351
Computer-related		3,477		3,091
Insurance		3,095		1,899
Repairs and maintenance		2,682		2,643
Rent		1,797		1,602
Other		33,147		30,536
Total	**SR**	**241,724**	**SR**	**211,271**

Entitlements paid to the Company's Managing Director in the form of monthly salaries and housing and transportation allowance amounted to SR 1,590,000 for the year ended December 31, 2004 (2003 - SR 1,590,000). His annual bonus, which represents 1% of the Company's net income, amounted to SR 5,023,740 for the year ended December 31, 2004 (2003 - SR 3,010,567).

26. Investments income

Investments income for the years ended December 31 is comprised of the following (000's):

		2004		2003
Share of profit from an associated company - net	SR	141,835	SR	140,653
Gain on disposal of investments - net		89,004		–
Gain on sale of available-for-sale investments		118,174		30,926
Reversal/adjustment of provision and other income		13,760		3,406
Investments income - net	**SR**	**362,773**	**SR**	**174,985**

27. Other income

Other income for the years ended December 31 is comprised of the following (000's):

		2004		2003
Promotional and display income	SR	33,213	SR	11,918
Scrap sales		14,430		457
Rental income		8,779		–
Other - net		6,136		7,216
Other income - net	SR	62,558	SR	19,591

28. Director's renumerations

The remunerations due to the Board of Directors for the year ended December 31, 2004 amounted to SR 2.3 million (2003 - SR 2.2 million). Attendance allowances amounted to SR 0.5 million for 2004 (2003 - SR 0.4 million) for attending Board meetings held during the year.

29. Earnings per share

Earnings per share for the year ended December 31, 2003 have been computed by dividing the net income for such year by 20 million shares to give a retroactive effect of the share capital increase mentioned in Note 20.

30. Commitments and contigencies

The Group had outstanding bank guarantees and letters of credit amounting to SR 63 million at December 31, 2004 (2003 - SR 98.8 million), which were issued in the normal course of business. Also see Note 14 with respect to guarantees given for certain loans, Note 18 with respect to zakat contingencies, and Note 32 with respect to leases.

The Company has also given a corporate guarantee amounting to SR 88.9 million against an SIDF loan to a associated company.

At December 31, 2004, a Group member company had commitments to purchase approximately 305,450 tons (2003 - 747,600 tons) of raw sugar at prices, which will approximate market prices prevailing on shipment dates, with deliveries spread between January 2005 and April 2005. Also, at December 31, 2004, the Group member company had commitments to sell in 2005 refined sugar of approximately 126,454 tons (2003 - 181,000 tons to sell in 2004) at prices, which would approximate the prevailing market prices at the contract date.

At December 31, 2004, SBeC has issued promissory notes to certain foreign banks amounting to approximately SR 818.7 million against bank facilities provided by those banks to SBeC's subsidiaries.

31. Segment reporting

During the years ended December 31, 2004 and 2003, the principal activities of the Group related to the manufacturing, wholesale and retail trading in various types of food and related products. Selected financial information as of December 31, 2004 and 2003, and for the years then ended, summarized by segment, is as follows (SR 000's):

	Manufacturing / wholesale	Retail	Other	Total
2004				
Fixed assets - net	1,385,939	1,782,614	19,432	3,187,985
Other non-current assets - net	110,969	121,023	634,388	866,380
Sales - net	3,494,071	2,092,480	15,428	5,601,979
Net income	258,213	61,208	182,953	502,374
2003				
Fixed assets - net	813,883	1,193,626	19,020	2,026,529
Other non-current assets - net	63,272	78,674	667,735	809,681
Sales - net	2,254,294	1,864,745	8,762	4,127,801
Net income	173,288	44,192	83,601	301,081

The Group's operations are conducted in Saudi Arabia, Egypt, Iran and certain other geographical areas. Selected financial information as of December 31, 2004 and 2003, and for the years then ended, summarized by geographic area, is as follows (SR 000's):

	Saudi Arabia	Egypt	Iran	Other countries	Total
2004					
Fixed assets - net	2,573,554	56,572	425,626	132,233	3,187,985
Other non-current assets - net	750,649	15,009	9,906	90,818	866,380
Sales - net	4,146,350	445,340	667,624	342,665	5,601,979
Net income (loss)	495,962	2,506	17,477	(13,571)	502,374
2003					
Fixed assets - net	1,944,964	57,404	–	24,161	2,026,529
Other non-current assets - net	718,955	–	–	90,726	809,681
Sales - net	3,596,850	388,637	–	142,314	4,127,801
Net income (loss)	293,587	10,635	–	(3,141)	301,081

32. Leases

The Group has various operating leases for office space, restaurants, supermarkets, retail outlets, employees' accommodations and vehicles. Rental expenses for the year ended December 31, 2004 amounted to SR 41.7 million (2003 - SR 34.1 million).

Operating leases with terms expiring within one year and in excess of one year as of December 31, 2004 are as follows (in millions):

Within one year	SR	–
Between two and five years		8.61
More than five years		682.53
Total	**SR**	**691.14**

The Company has leased out various shops situated within its shopping malls and hypermarkets as operating leases. Rental income from such shops for the year ended December 31, 2004 amounted to SR 31.5 million (2003 - SR 20.4 million).

Operating leases for rental income with terms expiring within one year and in excess of one year as of December 31, 2004 are as follows (in millions):

Within one year	SR	17.08
Between two and five years		26.26
More than five years		3.08
Total	SR	46.42

33. Appropriation of net income

In their general assembly annual meeting, which was held on Safar 3, 1425H (March 24, 2004), the shareholders approved the appropriation of the 2003 net income as follows:

- Payment of SR 2.2 million as Board of Directors' remunerations.
- Declared dividends to the shareholders amounting to SR 112 million (SR 7 per share).

Also, in their meetings held during 2004, the Board of Directors approved the payments of interim dividends to the shareholders amounting to SR 190 million (representing SR 9.5 per share for the 20 million shares that were outstanding as of those dates - see Note 20). This decision is expected to be ratified by the shareholders in their general assembly annual meeting scheduled in early 2005.

34. Financial instruments and risk management

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, trade and other accounts receivable, short-term bank borrowings, accounts payable, accrued expenses and other liabilities, and long-term debt.

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group has no significant concentration of credit risks. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Trade and other accounts receivable are mainly due from local customers and related parties and are stated at their estimated realizable values.

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial positions and cash flows. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risks arise mainly from its short-term and long-term borrowings which are at floating rate of interest. Short-term borrowings are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that fair value and cash flow interest rate risks to the Group are not significant.

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

Liquidity risk is managed by monitoring on regular basis that sufficient funds are available to meet the Group's future commitments. Also see Note 13.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi riyals, United States dollars, Euro, Iranian riyals, Egyptian pounds and Kazakh tenge. The management believes that the currency risk for inventory purchases is adequately managed primarily through futures contracts. Other transactions in foreign currencies are not material.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's consolidated financial statements are prepared under the historical cost method, except for the consolidation of a foreign subsidiary at fair value adjusted by the negative goodwill, differences can arise between the book values estimates. Management believes that the fair values of the group's financial assets and liabilities are not materially different from their carrying values.

35. Subsequent events

The Board of Directors, in its meeting held on February 9, 2005, resolved to increase the Company's share capital by issuing one bonus share for every four shares outstanding as of that date and approved the payment of final dividends amounting to SR 75 million to the shareholders (representing SR 3 per share for the 25 million shares including the new 5 million bonus shares to be issued). These decisions have been ratified by the shareholders in their extraordinary assembly meeting to be held on March 19, 2005.

These consolidated financial statements were approved by the Board of Directors on April 4, 2005.

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The Savola Group and Subsidiaries

The Savola Group welcomes your constructive suggestions that might enhance the quality of services provided to our valued shareholders and customers. You may contact :

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Chamber of Commerce membership
No. 3012 C.R. 4030019708 Jeddah.

A Saudi joint stock company with a capital
of SR 1,000,000,000 fully paid up.

Please visit our website: www.savola.com

The Group has its headquarters in Jeddah, a city of 2.5 million people, and the second largest city in Saudi Arabia, after the capital Riyadh.

Jeddah is the hometown to about 25% of non-oil Saudi industries, 75% of Saudi commerce, and is the main gateway for pilgrims visiting the two Holy cities of Makkah and Madinah.

Jeddah is the primary shopping and leisure destination in the Kingdom, with more than 25% of Saudi hotel capacity.

Peace and prayers be upon our Prophet Mohammed,
to his Honest Companions, and to those who follow them
with favor up to the day of judgement