



*The Savola Group*

2005

Annual Report



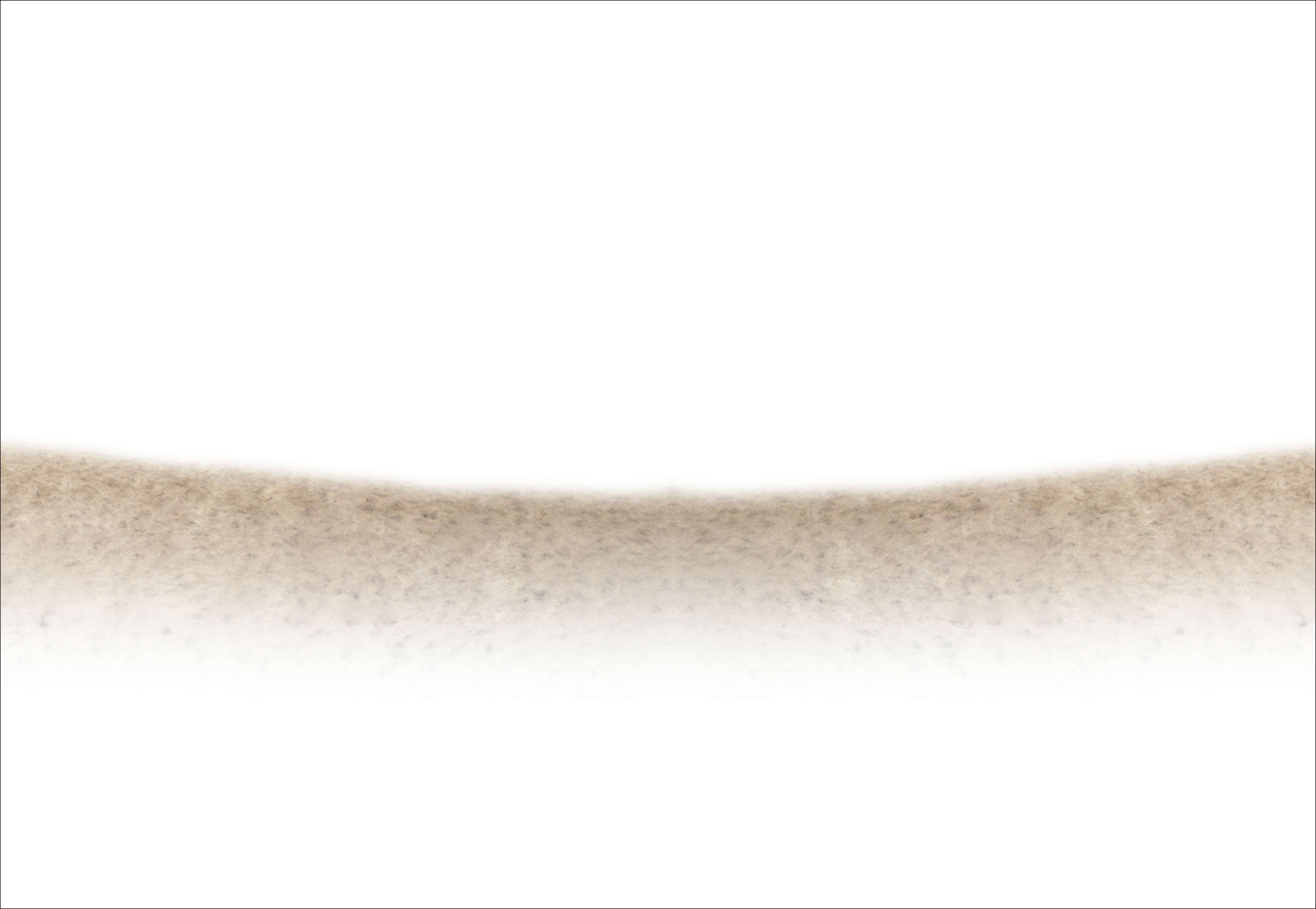
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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

**In The Name of ALLAH, The Most Merciful, The Most Beneficent**

والصلاة والسلام على أشرف الأنبياء والمرسلين سيدنا محمد وعلى آله وصحبه أجمعين

**Peace and prayers be upon the honest Prophet and Messenger  
Mohammed and upon his companions and followers**





# The Annual Report of The Savola Group

This is the Annual Report for the fiscal year that ended December 31, 2005. These results were submitted to The Savola Group shareholders at the 29th Ordinary Annual General Meeting held on April 15, 2006 (corresponding to 17 Rabi’ I 1427H).



Retail

Panda  
Azizia  
Hyperpanda Stores



Oils & Fats

Afia International Arabia  
Savola Behshahr Iran  
Afia International Egypt  
Afia International Jordan  
Savola Morocco Company  
Savola Kazakhstan  
Savola Sudan



Sugar

United Sugar Company - KSA  
United Sugar Company - Egypt



Packaging Systems

Savola Packaging Systems (SPS)  
Al-Sharq



Real Estate/United Properties Company (UPC)



Franchising

Bonia  
Mugg & Bean  
Jacqueline Riu



Investments

Al-Marai Company  
Herfy Food Company  
Other Investments



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## A Word from the Chairman of the Board

### *To Our Valued Shareholders,*

I would like to begin by expressing my respect and gratitude to our customers, to the people of The Savola Group and to our loyal shareholders. Together, they enabled us to make 2005 an outstanding year, one that symbolizes the success that The Group has accomplished.

The Group increased its capital three times in 2005 – from SR1 billion to SR1.8 billion, representing an 80% increase. The first two capital increases took place by granting free shares to shareholders and the third increase was executed through a rights issue “private offering”.

Strategically, The Group aims to regularly grant free shares to its shareholders. In line with this strategy, the Board has recommended an increase of The Group capital from SR1.8 billion to SR 3billion by granting two free shares for every 3 owned shares, increasing the number of shares from 36 million to 60 million. This

recommendation will be submitted to the Shareholders’ Assembly during the 1st Quarter 2006 for approval.

Two new Divisions were launched in 2005 – Real Estate and Franchising. In addition, The Group has entered the petrochemical sector for the first time. The latest developments in these and other Divisions will be shared with you in details of this Report.

The Group continues to place great emphasis on its responsibilities for good corporate governance, and always strives to increase shareholder value. We are committed to find the right balance to have excellent corporate governance while striving for innovation and growth to benefit shareholders.

Last, I would like to say that it is, indeed, a great honor for me to serve as the Chairman of the Board.

Wishing you the best.



**Adel M. Fakieh**  
**Chairman**







### *Dear Shareholders*

The Savola Group Board of Directors is pleased to submit its Annual Report, for the financial year ending December 31, 2005, to The Group Shareholder Assembly in its 29th Ordinary AGM and to share The Group's financial performance during the year 2005.

This report includes the Board of Directors' Report and the final consolidated (audited) accounts for the year 2005 together with its clarification notes thereof, and the 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 also would like to thank all customers and consumers for the trust and loyalty they placed 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 Units' Management and their employees who have made another successful year possible. The dedication and boundless efforts of all of these people during the year 2005 is very much appreciated.

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

### *Board of Directors*



#### *From left to right*

Mr. Mohammad Abdulqadir Al Fadl, Mr. Abdulaziz Khaled Al Ghufaily, Dr. Ghassan Ahmad Al Sulaiman, Mr. Youssef Mohammad Alireza, Eng. Adel Fakeih, Dr. Abdulraouf Mannaa, Mr. Ibrahim M. Aissa, Mr. Ammar A. Al Khudairi, Mr. Mousa Omran Al Omran

***Inset:*** Dr. Majed Abdullah Al Gossabi, Prince Naif Bin Sultan Bin M. Bin Saud Al Kabeer, Dr. Abdullah Tilmisani







## A Message from the CEO

### *Dear Shareholders*

I'm pleased to present the 2005 Annual Report which records the achievements as well as activities and financial standing of The Savola Group. You will also find a new section on Corporate Responsibility which describes how The Savola Group works to promote sustainable economic growth and channel needed services toward effective development and its commitment to transparency.

Our financial performance in 2005 reflects the progress we made in delivering on strategy to expand, diversify and yet stay focused. We reported net profit of SR1.2 billion, a 139% increase over 2004 and generated more than SR6.8 billion in total sales, a 60% increase over last year. This strong performance and cash generation enabled us to pay more

dividends in 2005 and to re-launch our free shares program, while investing in the future.

We are now focused on the opportunities that lie ahead, with the same spirit and business philosophy that drove our success in 2005. Our performance in 2005 has given us financial strength and positions us for continued performance in 2006.

This is a very appropriate time to thank The Group's employees for their ingenuity, skill and perseverance. Their work has produced tremendous results in 2005, clearly demonstrating the strong platform that The Group has built for the future. I look forward to reporting future progress as we deliver on our plans for profitable growth.

***Dr. Abdulraouf M. Mannaa***  
***Chief Executive Officer***









*From left to right as the follows*

**Dr. Ayman Hashem**  
*Vice President, Center for Strategic  
and Leadership Excellence*

**Mr. Azhar Kangi**  
*President, Packaging Division*

**Dr. Abdulraouf Mannaa**  
*Chief Executive Officer*

**Mr. Numan Farrukh**  
*Group Chief Financial Officer*

**Dr. Muhammad Ikhwan**  
*Vice President, Mergers & Acquisitions*

**Dr. Ibrahim Al Madhoun**  
*Executive Vice President, Non-Managed  
Investments & Portfolio Investments*



**Dr. Mohammed Ajlan**  
*President, Sugar Division*

**Mr. Zouhair Eloudghiri**  
*President, Oils & Fats Division*

**Dr. Mohammed Kashgari**  
*President, Retail Division*

**Mr. Abdulmalik Fathaddin**  
*President, Real Estate Division*

**Mr. Mahmoud Abdul Ghaffar**  
*Vice President, Corporate Affairs  
& Secretary of the Board*







*The Savola Group is committed to our Corporate Social Responsibility, and we will 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 in which we operate.*

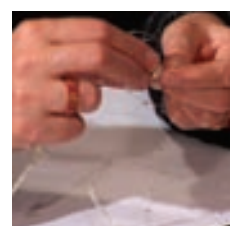
The concept and definition of Corporate Social Responsibility (CSR), has evolved over the past few years. It has progressed from social and environmental concerns to much broader concerns that include responsibility towards our internal stakeholders (investors, customers, suppliers and employees) and external stakeholders (community and environment).

While giving back to the community has always been a guiding principle of The Group, we, too, have evolved and better understand our role as a business in society in terms of the impacts of our activities, wherever we operate. The framework of our activities has moved towards a more sustainable approach. All of our CSR programs are based on innovative, long-term self-help ideas that will provide a value-adding impact on our stakeholders. We realize that our success, as a business, is reflected not only in our financial performance but also in our ability to address sustained development. Furthermore, we believe that

success will not be sustained without pure intentions and God's blessings. It is sustained success that will allow us to maximize returns to shareholders, which, in turn, will allow us to contribute more to the societies in which we operate.

We have instituted "Pledges" and "Bridges" that promise all our stakeholders - both internal and external, our solid commitment towards our corporate social responsibility. With our Pledges we undertake the guarantee that all contracts will be honored - between employees, suppliers, vendors, and partners alike. With our Bridges we are initiating a variety of programs specifically designed for long-term community development. Our Bridges are innovative, action-oriented self-help programs to provide opportunities for the less fortunate to cross the path towards self-reliance and self-productivity.

With our Bridges we are focusing on projects that give more attention to education, training







and recruitment via co-operative agreements with second parties specializing in these fields. Specifically, The Group has signed co-operative agreements with:

- HRH Prince Majed Bin Abdulaziz Society for Development and Social Services for small entrepreneur projects.
- Jeddah Center for Small & Medium Entrepreneurship (SME), managed by Jeddah Chamber of Commerce & Industry (JCCI) to finance small projects & scientific

research for Saudi entrepreneurs to receive technical advice and training courses from local and international experts.

- King Abdulaziz University's Female Section in Jeddah to support Community Service Learning.
- Khadija Bint Khowalid Center at JCCI to recruit and train recent female graduates.
- Ebsar Charitable Committee to support the visually impaired.
- JCCI and Jeddah Labor Office to establish recruitment for "Special Needs Citizens".





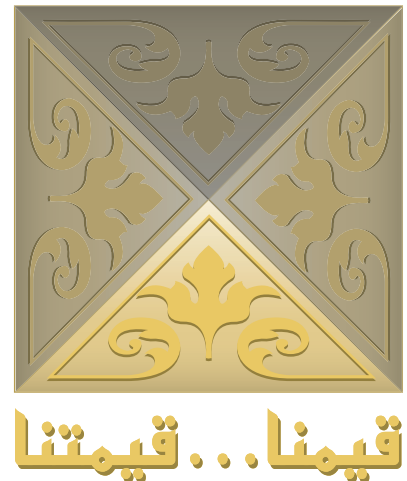
### **Disclosures & Transparency Programs**

To insure the independence of auditing, The Group outsources its internal auditing and to the well-known professional auditing offices of “Ernest & Young” which submits regular reports to The Group’s Audit & Risk Committee.

The Committee held four (4) meetings for this purpose in 2005, ensuring that the internal auditing activities, systems and principles were being properly implemented.

Furthermore, The Savola Group Board of Directors fully acknowledges the procedures of this internal auditing.

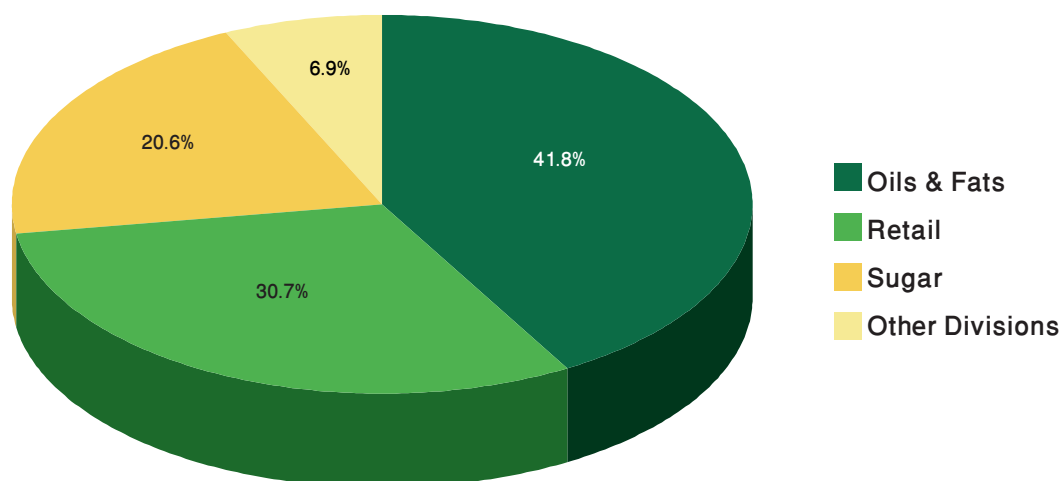
The Corporate Governance Committee, under close supervision of The Board of Directors and Executive Board, continues to support transparency and disclosure complying with the Capital Market Authority (CMA) regulations and bylaws, the Ministry of Commerce as well as other international standards and criteria.







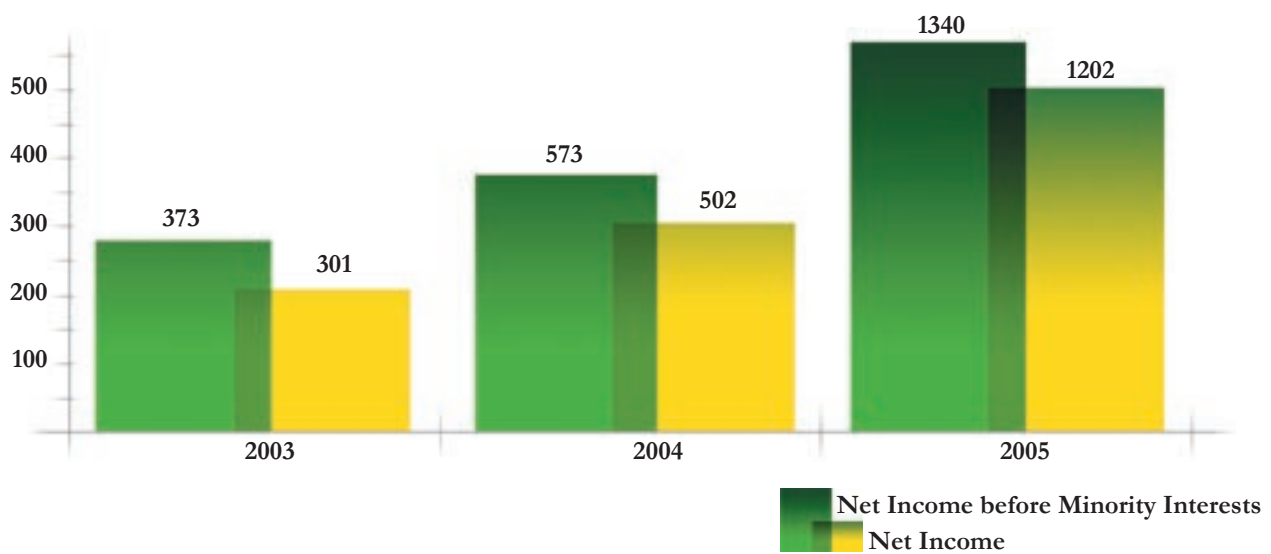
## Savola Group Sales



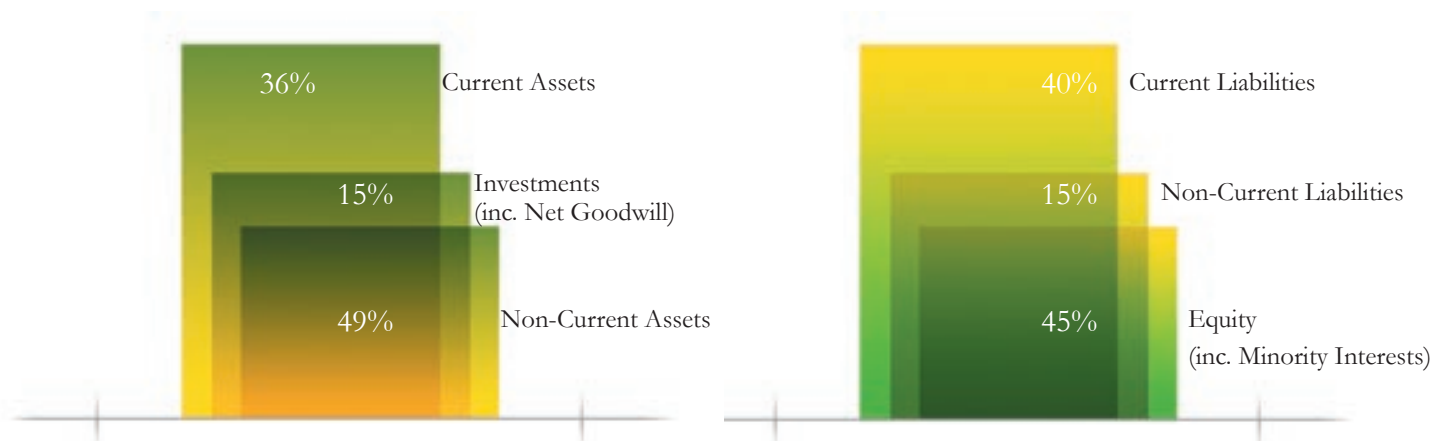
(Saudi Riyals in millions)	2000	2001	2002	2003	2004	2005
Net sales	2,896	3,356	3,624	4,128	5,602	6,856
Net Sales Growth	13.2%	15.9%	8.0%	13.9%	35.7%	22.4%
EBIT	258	267	318	410	648	1,473
(EBIT Margin as % of sales)	8.9%	8.0%	8.8%	9.9%	11.6%	21.5%
(Net income before Minority Interests (MI)	192	203	276	373	573	1,340
(Net Margin as % of net sales)	6.6%	6.0%	7.6%	9.0%	10.2%	19.5%
Net income	138	153	208	301	502	1,202
(Net Margin as % of net sales)	4.8%	4.6%	5.7%	7.3%	9.0%	17.5%
Total Assets	4,047	3,578	3,472	3,947	6,195	8,117
Total Liabilities	2,003	1,587	1,370	1,727	3,492	4,471
(Total Equity including MI)	2,044	1,991	2,102	2,220	2,703	3,646
Total Shareholders' equity	1,685	1,658	1,718	1,850	2,071	2,985
(Leverage Ratio - Total Liabilities/NTE)	1.2	0.9	0.7	0.8	1.4	1.3
(Gearing Ratio (Financial Debt/NTE)	0.7	0.4	0.3	0.5	0.9	0.7
Return on Total Assets	3.4%	4.3%	6.0%	7.6%	8.1%	14.8%
Return on Shareholders' Equity	8.2%	9.2%	12.1%	16.3%	24.2%	40.3%
Earnings Per Share	11.0	12.2	13.0	15.1	16.7	40.1

## Savola Group Net Income

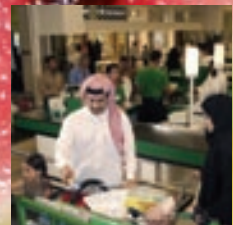
Net income grew as a result of strong performance of all core businesses



## Savola Group Balance Sheet Structure







# *Retail*



*Savola's Retail business plans to open one new store each month over the next four years.*

The Retail business is 100% owned by The Savola Group and trades under the Panda and HyperPanda brand names.

With 3 Hypermarkets and 47 supermarkets trading at the end of December 2005 Panda is the number one Food Retailer in the Kingdom of Saudi Arabia. We also have ambitious plans for growth outside KSA leveraging our success in KSA to move into other GCC countries as well as new emerging markets.

The Panda business in the Kingdom of Saudi Arabia made solid progress in 2005

with sales exceeding SR 2.1 billion for the first time in its history, an increase of 13.5% over 2004. In 2005, customers increased by 3.4% over the previous year.

Panda remains the only operator in Saudi Arabia to have stores located throughout the Kingdom with stores in Riyadh, Jeddah, Qassim and the Eastern Province. New stores are planned for the Northern and Southern provinces in the near future.

Panda made good progress to strengthen its key operating systems and supply chain. Work has already started on a new 'state





of the art' distribution facility in Riyadh to support the existing stores, future expansion and enhance on-shelf availability.

Panda's new store expansion programme has continued to gather momentum. The first Jeddah HyperPanda opened in September and an additional four new supermarkets – two in Jeddah, one in Riyadh and one in

Al-Hasa – opened during the second half of 2005.

Two additional HyperPanda stores opened in the first quarter of 2006 – one in the Rimal Centre located on the East Ring Road in Riyadh and the other as the key anchor tenant of the Roshan Centre in North Jeddah. Six other supermarkets are due open in 2006.





The opening of a 15,000 square meter HyperPanda in Dubai's Festival City is on schedule for May 2006. This is Panda's first opening outside the Kingdom of Saudi Arabia.

Our people remain our key asset and we have invested significantly in recruitment, training and the development of all our employees

during 2005. This will continue to grow in 2006.

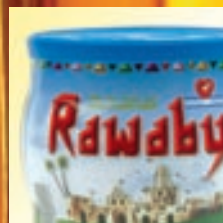
Panda remains a large employer of people and at the end of December 2005 employed over 6,000 employees - 2,075 of which were Saudi nationals. This will grow to over 20,000 employees by the year 2010.







# *Oils & Fats*





*Afia International, formerly Savola Edible Oils Ltd. (SEO) is in pursuit of becoming one of the world leaders in branded edible oil products.*

The Savola Group owns 90.6 % of the Afia International Company. The combined turnover of AfiaIntl reached SR2.9 billion compared to SR2.3 billion last year, an increase of 26%. This was achieved by producing and selling 1003 KMT compared to 753 KMT last year, an increase of 33%.

In 2005, Afia International Company "AfiaIntl", formerly Savola Edible Oils Company (SEO) achieved a major milestone by selling a total of 1 Million tons of edible oils from its seven business units that cover over 30 markets in the North Africa, Middle East and Asia region (NAMECA). Afia International further strengthened this position by entering the promising Sudanese market through its new Greenfield project which started operation in December 2005 and will soon be moving forward with the its Greenfield operation in Algeria.

AfiaIntl, through these major achievements,

increased its profitability by 32% over 2004 and further strengthened its leadership position in all the markets in which it operates, despite strong competitors' activities.

The Afia International subsidiary entirely operates, manages and controls, at different percentages, Afia International Arabia (KSA), Savola Behshahr Iran, Savola Sime Egypt (now Afia International Egypt), Afia International Jordan, Savola Morocco Company, Savola Kazakhstan Company, Savola Sudan as well as Expansion Projects.

**a) Afia International – Arabia (KSA operation covering all GCC markets)**

The Group owns 100% of AfiaIntl, Arabia (KSA) and delivered an all time high operating profit in 2005, moving from SR111 million to SR120 million, an increase of 8%.





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

Afia and Al Arabi, the company's flagship brands, maintained their dominating position. In order to provide the consumer more choices, a new brand Afia Ishraqua was launched, strengthening the company's lead position ahead of all competitors in the sunflower category.

**b) Savola Behshahr Company - Iran (SBC)**

Savola Behshahr Company, a joint venture, 49% owned by AfiaIntl and 51% owned by

Behshahr Industrial Development Company, is managed and controlled by Afia International. SBC also owns and operates two manufacturing units. The market share reached 38% and turnover reached SR1064 million making 2005 truly a year of growth for Savola Behshahr Company.

**c) Savola Sime Egypt (SSE) now Afia International - Egypt**

After a decade of fruitful partnership with Sime Darby, a major Malaysian Conglomerate, Sime Darby recently sold their shareholdings to Afia International. As a result of this buy-back transaction, AfiaIntl now effectively holds 92% of Savola Sime Egypt (SSE) and accordingly has changed the name of the company to "Afia International – Egypt".





The year 2005 marked a major milestone for Savola Sime Egypt operations. The company took over the leadership of the growing liquid oils segment after 10 years of strong consumer offerings and launched the very successful Helwa brand. This major achievement came while the company achieved dominance of the Ghee segment by reaching over 50% market share.

In 2005, SSE also delivered major improvement in its profitability and a strong 30% increase in its sales volume reaching 187KMT.

**d) Afia International – Jordan (covering Levant countries)**

Afia Intl-Jordan is 75% owned by AfiaIntl and 25% by other investors. While the company

succeeded to strengthen its Jordan market share and volume, and successfully entered the promising but still very small Iraq free consumer market, its performance was highly affected by the current situation in Iraq. The growing manufacturing costs and the increase of GMP standard expenses in the Jordan plant are directly related to energy costs in Jordan.

AfiaIntl management is reviewing the operating model for best delivery of AfiaIntl- Jordan return on investment objectives for 2006 and beyond.

**e) Savola Morocco Company (SMC)**

AfiaIntl has 60% ownership of SMC and 40% is owned by Golden Hope, a major Malaysian upstream edible oils player. The business





has seen a major volume, market share and brands equity building in its first full year of operation. Afia brand equity is strengthening in its volume and continues to grow, period after period. Total sales volume reached 45KMT vs 11KMT in 2004, delivering a market share over 12% at the end of the year. As a result, the Morocco plant is running at full capacity calling for an immediate capacity increase, with plans to increase to 100KMT by the end of 2006 and 150KMT by mid 2007.

While a costly price war by a key competitor is posing challenges to the business profitability, serious efforts are being made to overcome the issues currently being faced by the company. The Group is confident that operations in Morocco will emerge a winner in the very near future.

#### **f) Savola Kazakhstan**

AfiaIntl owns 90% of Savola Kazakhstan and a local company owns the remaining 10%. The year 2005 was a year of plant operation commissioning and AfiaIntl brands launch, ensuring volume growth month after month by over 50%. The 2004 drought in the sunflower seeds belt challenged business profitability and resulted in very high crude oil prices for the business. However, the last quarter 2005 sunflower seeds season was back to normal, delivering a major reduction in the price of crude oils and increasing confidence that 2006 will be profitable in terms of recovery for Savola Kazakhstan. The Company continues building volume in the very healthy Kazakhstan edible oils market and is preparing an annual capacity increase from the current 22.5KMT to a 100KMT in 2007.







#### **g) Savola Sudan**

AfiaIntl owns 89% of Savola Sudan, from 66% last year; the remaining is owned by another investor. The company, having gone through plant commissioning in most of 2005 started commercial operations in December 2005. The company is preparing to exploit the very promising developing Sudan market and neighboring countries in 2006 with strong sales and marketing plans.

#### **h) Expansion Projects**

The Oils and Fats Division, in its constant pursuit to achieve the position of a dominant player in manufacturing and selling of edible

oils products in North Africa, the Middle East and Asia, is also exploring investment opportunities in Eastern Europe and the Far East. A Greenfield operation in Algeria has been approved by the AfiaIntl Board. Project financing and land acquisition are underway to start the execution of this very promising project.


Additional opportunities have been identified, either for acquisition or for building new facilities in other countries and have been initially approved by the Board of Directors for further exploration and final recommendations 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 Savola Group operates its packaging business through its subsidiary Savola Packaging Systems (SPS), which is wholly owned by The Group and one of its subsidiaries. The Group owns 100% of the plastic factory facilities in Jeddah and Riyadh. The year 2005 was a year of impressive growth in sales for The Packaging Division as its sales increased by 23% over 2004 despite tough market competition. Raw material price hikes continued for another year which further dropped the contribution margin but the Division still managed to achieve the committed bottom line by improving sales volumes. Cash outflow was also better than plan. All the other strategic targets including new products sales and export sales were met with significant improvement; new product sales increased by 89.6% over 2004 and export sales grew by 38% against the previous year.

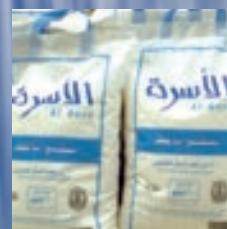
Gross Sales for 2005 was SR192 million as compared to SR156 million in 2004. Sales were mainly increased in the segments of dairy, water and carbonated soft drinks (CSD). This Division increased sales significantly in Sudan, Morocco and Kuwait; Japan was also added as a new region in the profile. In addition a major break through was achieved in promoting PET to the dairy & juices sector.

The Savola Group's Packaging Systems Division became the first in the region to develop and supply PET preforms for hot fill applications - a technology used in filling hot beverages for long life. The Packaging Division also acquired a new piece of land to expand the PET segment in Riyadh and to gain a strategic advantage of location. The Savola Group's Packaging Systems Division acquired Al-Sharq Plastics Company mid-year 2005





# *Sugar*





*The United Sugar Company, which is 41% owned by The Savola Group, operates the most advanced sugar refinery in Jeddah.*

The United Sugar Company, which is 41% owned by The Savola Group, operates the most advanced 1 million metric ton (MMT) sugar refinery located in Jeddah Islamic Port. The year 2005 was an outstanding year for the Savola Sugar Division (SSD), marked by record-breaking achievements and focused drive. In 2005, the Division devoted its efforts to building its competitive edge through customer satisfaction, cost leadership, aggressive branding schemes, and market penetration to increase brand loyalty

and product share in the Saudi retail market. As a result, the Division recorded a net profit of SR92 million in 2005, compared to SR82 million in 2004, reflecting an increase in profits by 12%. The year also signified a competitive team spirit in sales; the effective collaboration with the Supply Chain Department and their improved sales forecasting and planning pushed products into the local market as well as opened new export channels. Total sales volume grew by 5% from 979kMT, primarily in the domestic market.



For the first time in history, net sales exceeded one billion Saudi riyals. In 2005, SSD recorded a net sales record of SR1.4 billion, growing by 28% over 2004. Sales of Al Osra, Ziadah and Nawaem, their retail brands, grew by 10% up to 189KMT in 2005. The total retail market share at the end of 2005 was over 73%. The production of white sugar, both coarse and fine, reached 1029KMT compared to 941KMT in 2004, a growth of 9.3% over the previous year. Close monitoring and tighter control contributed to reducing the unit production cost per 50kg bag from SR5.60 in 2004 to SR5.46 in

2005, a 2.5% decrease. The Division's ability to purchase, refine and deliver quality white sugar to satisfied customers was largely due to the creation of the Supply Chain Department and Planning Unit. Training was also vastly improved in 2005. The Division carried out functional training programs in the areas of Raw Sugar Purchasing and Risk Management to ensure building the decision-making and knowledge capabilities of its managers. Plans are in place to continue to carry out functional training in areas of Marketing, Supply Chain and Sales.







*United Sugar Company- Egypt is designed to produce European and international standards quality Sugar.*

**b) United Sugar Company - Egypt (USCE)**

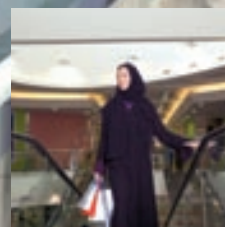
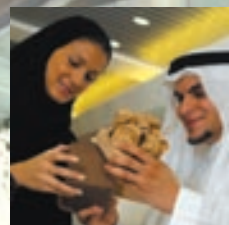
Construction of The Group's USCE site at Ein Al Sukhna Port, south of Suez, Egypt began in August 2005. The total estimated cost of the project was SR401.8 million, of which 51% is owned by USC, 18% by The Savola Group and the remaining percentage owned by other partners. The process of vendor selection has been completed and refinery equipment and

machinery have been ordered. Once all is in place, commissioning is expected to begin during the first quarter of 2007. Commercial production is anticipated during the second quarter of 2007. The USCE refinery is designed to produce European and international standards quality sugar. Annual production capacity is expected to be 750KMT expandable to 1.25MMT.





# *Real Estate*







***United Properties Company (UPC) was established to provide development, leasing and mall management services to the Real Estate Division.***

The Savola Group established its Retail Division by acquiring Azizia Panda United in October 1998 which was an integral part of the Retail Division until December 2004. In 2005 The Group split the Retail Division into two separate divisions - Real Estate and Retail -realizing that developing, leasing and managing Malls is a complex exercise requiring special focus and professional expertise.

The Real Estate Division is currently operating a portfolio of two Hypermarket Malls and six Supermarket Malls. The Division is also committed to developing eighteen (18) Hypermarket Malls for the Retail Division by the year 2010; strategic sites have already been secured for twelve (12) of these. As a step towards adding value, integrity and professionalism to this new operation.

The Savola Group entered into a Joint

Venture with Old Mutual Properties, a South African conglomerate, which is an international player having expertise in this area. United Properties Company (UPC) was established to provide development, leasing and mall management services. UPC is responsible for all of the current projects in the Real Estate Division.

The Retail Division witnessed record revenue of SR89 million in 2005, against SR43 million for the previous year, owing mainly to the full year of operations of Azizia Mall in Riyadh as well as the opening of Jamea Plaza in Jeddah. The Net Profit also doubled in comparison to the previous year closing at SR31million for 2005.

The soft opening of Jamea Plaza in Jeddah also took place in the latter part of 2005. It was our first “Design & Build” experience and was completed within a short period of 10 months.



MUGG & BEAN



MUGG & BEAN  
BRAND  
Since 1984  
THE MUGG & BEAN COMPANY

MUGG & BEAN  
BRAND  
Since 1984  
THE MUGG & BEAN COMPANY

Mugg & Bean

*Franchising*







*The primary responsibility of the Franchising Division is to sign and roll out new retail concepts in the Saudi retail market.*

The Franchising Division, which was initiated in 2004, has been able to build a strong foundation for its businesses during the course of the year 2005. This Division is a natural extension to The Savola Group's mega and Real Estate expansion.

A primary responsibility of this Division is to sign and roll out new retail concepts in the Saudi retail market by signing exclusive franchise agreements with prominent

international brands. The Division has signed several franchise agreements with international brands from Europe, South Africa and the Far East in various business sectors such as restaurants, footwear and fashion clothing.

In 2005, the Division opened its first seven stores in Jeddah. The Division will introduce new franchises in 2006 launching stores in Jeddah, Riyadh and Dammam.

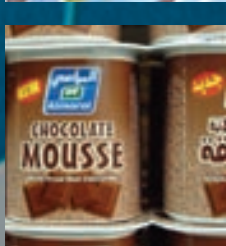






شركة المراعي المحدودة  
Almarai Company Limited

# *Investments*





### *The Savola Group plans expansion in promising new areas of investments.*

#### **A) Almarai**

The Savola Group owns 28% of Almarai's share capital. Almarai is one of the leading food companies in the Middle East and has an excellent reputation for quality. It has over 200 different products such as fresh milk, yoghurt, cheese, juice and tomato paste. Almarai controls more than 40% of the dairy market and is a household name in Saudi Arabia and the other Gulf countries.

Almarai witnessed some of the most significant business developments in 2005. In August, it successfully floated 30% of the company's Share Capital on the Saudi Stock Exchange.

Amongst other significant developments in 2005 was the construction of its latest farming project, the Albadiah Super farm, which has the capacity to accommodate 15,000 milking cows and 12,500 young stock.

2005 also witnessed the consolidation of its processing and distribution facilities through the completion of its second

production facility, the Central Processing Plant 2 (CPP 2), at a total cost of approximately SR700 million. Located on the same site as CPP 1, approximately 130 Kilometers from Riyadh, CPP 2 consists of three new production facilities: for fresh dairy liquid, fruit juices, and cheese.

Utilizing modern storage technologies and sophisticated processing facilities, this new facility has been designed to deliver long-term benefits to the business.

2005 also witnessed the expansion of the excellent Sales Distribution Network with the opening and redevelopment of depots. It now operates 31 sales Depots – 22 in Saudi Arabia and 9 in the other GCC regions – delivering to over 27,000 retail customers and making more than 100,000 individual calls every week.

Almarai continues to be the largest dairy company in the Middle East. In 2005, as part of its expansion plans, the Company also witnessed an increase in the total workforce to 5,685 employees.



#### **Herfy Food Services Company:**

Herfy Company, 70% owned by The Savola Group continued to strengthen its leadership position as one of the leading national companies in the field of fast foods in Saudi Arabia.

In line with its ambitious expansion strategy, the Herfy Company opened ten (10) strategically located restaurant branches during 2005. New branches opened in Riddadh, Jeddah and Dammam and the number of Herfy restaurants in the Kingdom

has increased to 102 branches, most of which render fast food delivery services.

The Group's investment in Herfy Food Services has exceeded expectations. Its large number of branches has resulted in a very high percentage of the volume of the fast food market, exceeding most of the foreign and local restaurants in Saudi Arabia.

On the occasion of the opening of the first Herfy restaurant in Riyadh, and in continuation of its expansion







plans outside the Kingdom, two franchising branches were opened in the United Arab Emirates in 2005.

Herfy's own meat factory, which is considered one of the most advanced in the Middle East in terms of technology and production lines, continued its meat production with various chicken burger products. Working towards self-sufficiency, this factory is supplying chicken to all Herfy restaurants with the goal of producing, not only all of its meat products, but those of the local and Gulf markets in the near future.

In 2005, The Group's investment in the Herfy Company showed an increase of more than 20% in sales compared to 2004. The wide spread and the big number of Herfy branches enabled the restaurants of the company to obtain the higher percentage of the volume of

fast foods market in KSA exceeding most of the foreign and local restaurants.

#### **Other Investments**

During the year 2005, The Savola Group acquired 30% stake of the Egyptian Fertilizer Company (EFC) along with other investments led by Citadel Capital. The size of The Group's investment in this transaction reached SR413 million. This investment is in line with The Group's expansion strategy to enter promising new areas that include the petrochemical industry.

In addition, The Group's Board of Directors has approved an investment of SR375 million in the "Jossour" Company Project, which will specialize in the petrochemical industry; this project will commence with SR3.75 billion start-up paid capital.





# Financial



**INDEPENDENT AUDITORS' REPORT**

March 5, 2006

To the Shareholders of Savola Group Company:


We have audited the accompanying consolidated balance sheet of Savola Group Company (the "Company"), a Saudi joint stock company, and its subsidiaries as of December 31, 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 2005 and the results of their operations and their cash flows for the year 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



**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 1,500,000,000 fully paid up

*December 31, 2005 and 2004*  
(Saudi Riyals in thousands)

	Notes		2005		2004
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents	3	SR	265,148	SR	263,786
Available-for-sale securities	4		328,642		137,699
Accounts receivable - net	5, 6		942,875		618,088
Inventories - net	7		1,122,201		972,725
Prepayments and other assets	8		284,739		148,275
<b>Total current assets</b>	<b>13</b>		<b>2,943,605</b>		<b>2,140,573</b>
<b>Investments - net</b>	<b>9</b>		<b>1,104,186</b>		<b>664,902</b>
<b>Goodwill - net</b>	<b>10</b>		<b>90,451</b>		<b>139,902</b>
<b>Other non-current assets - net</b>	<b>11</b>		<b>61,417</b>		<b>61,576</b>
<b>Fixed assets - net</b>	<b>6,12, 14</b>		<b>3,917,612</b>		<b>3,187,985</b>
<b>Total assets</b>		<b>SR</b>	<b>8,117,271</b>	<b>SR</b>	<b>6,194,938</b>
<b>Liabilities and Equity</b>					
<b>Current liabilities:</b>					
Short-term bank borrowings	13	SR	1,425,610	SR	992,163
Current portion of long-term debt	14		195,072		164,857
Accounts payable	6, 15		1,207,884		748,721
Accrued expenses and other liabilities	16, 18		450,449		298,356
<b>Total current liabilities</b>	<b>13</b>		<b>3,279,015</b>		<b>2,204,097</b>
<b>Long-term payables</b>	<b>17</b>		<b>128,212</b>		<b>121,938</b>
<b>Long-term debt</b>	<b>14</b>		<b>941,652</b>		<b>1,059,274</b>
<b>Employees' termination benefits</b>	<b>19</b>		<b>122,316</b>		<b>106,376</b>
<b>Total liabilities</b>			<b>4,471,195</b>		<b>3,491,685</b>
Commitments and contingencies equity:	30, 32		—		—
<b>Equity attributable to the Company's shareholders:</b>					
Share capital	20		1,500,000		1,000,000
Share premium reserve	21		9,000		9,000
Statutory reserve	22		514,849		394,631
General reserve	23		4,000		254,000
Unrealized gains on available-for-sale securities	4		131,677		20,858
Foreign currency translation adjustments			(112,706)		(61,371)
Retained earnings			938,293		453,737
<b>Total shareholders' equity</b>	<b>6</b>		<b>2,985,113</b>		<b>2,070,855</b>
Minority interests			660,963		632,398
<b>Total equity</b>			<b>3,646,076</b>		<b>2,703,253</b>
<b>Total liabilities and shareholders' equity</b>		<b>SR</b>	<b>8,117,271</b>	<b>SR</b>	<b>6,194,938</b>

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

# Consolidated Statements of Income

A Saudi joint stock company with a capital  
of SR 1,500,000,000 fully paid up



*For the years ended December 31, 2005 and 2004  
(Saudi Riyals in thousands)*

	Notes		2005		2004
Revenues - Net	6	SR	6,856,484	SR	5,601,979
Cost of revenues			(5,700,362)		(4,683,822)
Gross profit			1,156,122		918,157
Expenses:					
Selling and marketing	24		(553,023)		(453,865)
General and administrative	6, 25		(352,869)		(241,724)
Operating income			250,230		222,568
Other income (expenses):					
Investments income - net	26		1,098,864		362,773
Financing cost - net	13, 14		(102,239)		(55,308)
Other income - net	27		124,133		62,558
Income before zakat and foreign income tax and minority interests			1,370,988		592,591
Zakat and foreign income tax	18		(30,780)		(19,174)
Income before minority interests			1,340,208		573,417
Share of minority interests in the net income of consolidated subsidiaries			(138,034)		(71,043)
Net income		SR	1,202,174	SR	502,374
Earnings per share (in Saudi Riyals)	29	SR	40.07	SR	16.75

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





## Consolidated Statements of Changes in Shareholders' Equity

A Saudi joint stock company with a capital  
of SR 1,500,000,000 fully paid up

*For the years ended December 31, 2005 and 2004  
(Saudi Riyals in thousands)*

	Notes	2005	2004
<b>Share Capital:</b>			
Balance at January 1		SR 1,000,000	SR 800,000
Bonus shares issued during the year	20	500,000	200,000
Balance at December 31		1,500,000	1,000,000
<b>Share Premium:</b>			
Balance at January 1		9,000	209,000
Bonus shares issued during the year	20	-	(200,000)
Balance at December 31		9,000	9,000
<b>Statutory Reserve:</b>			
Balance at January 1		394,631	344,394
Transfer from retained earnings	22	120,218	50,237
Balance at December 31		514,849	394,631
<b>General Reserve:</b>			
Balance at January 1		254,000	254,000
Bonus shares issued during the year	20	(250,000)	-
Balance at December 31		4,000	254,000
<b>Unrealized Gains on Investments:</b>			
Balance at January 1		20,858	-
Unrealized gains during the year	4	110,819	20,858
Balance at December 31		131,677	20,858
<b>Foreign Currency Translation Adjustments:</b>			
Balance at January 1		(61,371)	(63,452)
Adjustments during the year-net	26	(51,335)	2,081
Balance at December 31		(112,706)	(61,371)
<b>Retained Earnings:</b>			
Balance at January 1		453,737	305,900
Net income		1,202,174	502,374
Transfer to statutory reserve	22	(120,218)	(50,237)
Bonus shares issued during the year	20	(250,000)	-
Interim dividends	33	(270,000)	(190,000)
Final dividends for 2004 and 2003	33	(75,000)	(112,000)
Directors' remunerations	28,33	(2,400)	(2,300)
Balance at December 31		938,293	453,737
<b>Total shareholders' equity</b>		<b>SR 2,985,113</b>	<b>SR 2,070,855</b>

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

# Consolidated Statements of Cash Flows

A Saudi joint stock company with a capital  
of SR 1,500,000,000 fully paid up



*For the years ended December 31, 2005 and 2004  
(Saudi Riyals in thousands)*

	2005	2004
<b>Cash flows from operating activities</b>		
Net income	SR 1,202,174	SR 502,374
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment income - net	(1,098,864)	(362,773)
Amortization and impairment	87,553	21,367
Adjustments to goodwill-net	(5,098)	(24,720)
Adjustments to other non-current assets	9,236	-
Depreciation	194,918	160,770
(Gain) loss on sale of fixed assets	(4,326)	463
Share of minority interests in the net income of the consolidated subsidiaries	138,034	71,043
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(324,787)	(323,898)
Inventories	(149,476)	(434,919)
Prepayments and other current assets	(136,464)	(35,573)
Accounts payable	459,163	378,391
Accrued expenses and other current liabilities	92,365	119,262
Employees' termination benefits	15,940	34,505
<b>Net cash provided by operating activities</b>	<b>480,368</b>	<b>106,292</b>
<b>Cash flows from investing activities</b>		
Additions to available-for-sale securities	(411,831)	(518,307)
Proceeds from sale of available-for-sale securities	525,519	519,640
Dividends received from an associated company	100,825	120,990
Proceeds from sale of investments - net	935,480	102,876
Additions to investments	(513,209)	(30,404)
Additions / adjustments to other non-current assets	(42,081)	(46,504)
Proceeds from sale of fixed assets	16,494	17,608
Net beginning balance of fixed assets of acquired subsidiaries	-	(278,553)
Additions to fixed assets	(988,048)	(1,061,744)
<b>Net cash used by investing activities</b>	<b>(376,851)</b>	<b>(1,174,398)</b>

# Consolidated Statements of Cash Flows (cont.)



A Saudi joint stock company with a capital  
of SR 1,500,000,000 fully paid up

*For the years ended December 31, 2005 and 2004  
(Saudi Riyals in thousands)*

		2005		2004
<b>Cash flows from financing activities</b>				
Net change in short-term bank borrowings	SR	433,447	SR	253,468
Repayment of long-term debt		(164,857)		(72,558)
Additions to long-term debt		77,450		1,083,077
Change in minority interests		(109,469)		190,903
Dividends paid		(338,726)		(289,370)
<b>Net cash (used) provided by financing activities</b>		<b>(102,155)</b>		<b>1,165,520</b>
Net increase in cash and cash equivalents		1,362		97,414
Cash and cash equivalents at beginning of year		263,786		166,372
<b>Cash and cash equivalents at end of year</b>	SR	<b>265,148</b>	SR	<b>263,786</b>
<b>Supplemental schedule of non-cash information</b>				
Payable related to acquisition of a subsidiary credited to liabilities	SR	57,328	SR	—
Directors' remunerations		2,400		2,300
Unrealized gains on available-for-sale securities		110,819		20,858
Net excess of the fair value of the subsidiary's underlying net assets over its purchase price		48,570		—
Foreign currency translation adjustments		(51,335)		(2,081)
Offset of investment under liquidation against balance payable to investee		—		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.



# Notes to Consolidated Financial Statements

A Saudi joint stock company with a capital  
of SR 1,500,000,000 fully paid up



*For the years ended December 31, 2005 and 2004*

## 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,	
		2005	2004
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	Virgin Islands	100	100
Tayseer FZCO	UAE	100	100
Azizia Panda Trading Company	Saudi Arabia	100	100
Al Azizia - Panda United Company	Saudi Arabia	100	100
Savola Edible Oils Company Limited ("SEO")	Saudi Arabia	90.62	90.62
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.	Saudi Arabia	100	100
United Properties Development Company ("UPDC")	Saudi Arabia	70	—

# Notes to Consolidated Financial Statements



A Saudi joint stock company with a capital of SR 1,500,000,000 fully paid up

SEO also has the following consolidated subsidiaries:

Name	Country of Incorporation	Effective ownership interest (%) at December 31,	
		2005	2004
Malintra Holdings	Luxembourg	100	100
Afia International Company, Jordan	Jordan	75	75
Savola Morocco Company	Morocco	60	51
Savola Sime Foods Limited ("SSFL")	Virgin Islands	100	50
Savola Edible Oils (Sudan) Ltd. ("SSC")	Sudan	89	65.9
Inveskz Inc. ("Inveskz")	Virgin Islands	90	90
Savola Behshahr Company ("SBeC")	Iran	49	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.

During 2005, USC set up United Sugar Company - Egypt ("USCE") as a limited liability company registered in the Arab Republic of Egypt. The purpose of USCE is to own and operate a cane sugar refinery in Egypt and to sell and distribute refined sugar and related by-products. The Group has an effective ownership interest of 38.9% in USCE, which was also consolidated in USC's financial statements (having 51% ownership interest in USCE) before the preparation of these consolidated financial statements. The Group has significant control over USCE.

During 2005, the Company set up UPDC as a limited liability company in Saudi Arabia for the purpose of managing, operating, marketing and developing hotels, commercial, and residential complexes and providing industrial support services.

As of December 31, 2004, SEO had 50% ownership interest in SSFL. During 2005, SEO acquired an additional 50% ownership interest in SSFL Accordingly, as of December 31, 2005, SEO's effective ownership interest in SSFL is 100%. Also, see Note 26.

The Group also has an effective ownership interest of 84% (2004 - 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.

During 2004, SSC was set up as a limited liability company in Sudan for the purpose of manufacturing and trading in edible oil products. During 2005, SEO increased its ownership interest in SSC to 89%.

During 2004, SEO acquired 90% ownership interest in Inveskz, 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 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 securities 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.

During 2004, SBeC had a fiscal year-end that ended on March 20, 2005. Accordingly, the interim financial statements of that subsidiary covering the nine months ended December 20, 2004 were consolidated in the 2004 consolidated financial statements. No significant events or transactions took place between December 20, 2004 and December 31, 2004 for SBeC. During 2005, SBeC changed its fiscal year-end to December 20, 2005. Accordingly, the financial statements of SBeC for the twelve months ended December 20, 2005 are consolidated in the accompanying consolidated financial statements. No significant events or transactions took place between December 20, 2005 and December 31, 2005 for SBeC.

**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 original maturities of three months or less, which are available to the Group 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 a 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.





A Saudi joint stock company with a capital of SR 1,500,000,000 fully paid up

**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 and, hence, such investments have been classified as current assets. The carrying values of these investments are adjusted based on their fair values at the date of the consolidated balance sheet. 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 credited or charged to the consolidated statement of income.

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 because their fair values cannot be estimated.

Other equity investments also include investments that are under progress or are not consolidated due to certain uncertainties surrounding the transactions (see Note 9 (c)).

Permanent diminution in the value of such investments, if any, 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 its fair value as of the acquisition date, such difference is adjusted by reducing the fair values 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 lease term 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 are 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 in revenues.

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

Other income principally consists of promotional and display income, scrap sales and rentals of oil storage tankers, and is recognized as earned.

**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 revenues as required under generally accepted accounting principles. Allocations between cost of revenues 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.

Additional zakat and tax payable, if any, on the finalization of the Group's assessments are accounted for when determined.

**Foreign currency translation** – The Company's books of account are maintained in Saudi riyal. Foreign currency transactions are translated into Saudi riyal 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 2005 and 2004, are charged or credited to the consolidated statement of income currently.

# Notes to Consolidated Financial Statements



A Saudi joint stock company with a capital of SR 1,500,000,000 fully paid up

Assets and liabilities of foreign subsidiaries are translated to Saudi riyal 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 riyal, 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.

### 3. Cash and cash equivalents

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

		2005		2004
Cash at banks - current accounts	SR	174,485	SR	156,734
Time deposits		80,966		97,801
Cash on hand		7,755		9,251
Cash in transit		1,942		—
<b>Total</b>	<b>SR</b>	<b>265,148</b>	<b>SR</b>	<b>263,786</b>

Time deposits at December 31, 2005 include restricted deposits of approximately SR 62.7 million (2004 - SR 30 million), which were blocked against bank facilities granted to certain Group companies.

### 4. Available-for-sale securities

Available-for-sale securities represent marketable equity securities of local joint stock companies and are fair valued at December 31, 2005 and 2004. The fair value is determined by reference to stock exchange quoted prices.



# Notes to Consolidated Financial Statements

A Saudi joint stock company with a capital  
of SR 1,500,000,000 fully paid up



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

		2005		2004
Balance at January 1	SR	137,699	SR	—
Additions during the year		411,831		518,307
Disposals during the year		(331,707)		(401,466)
Net unrealized gains credited to equity account		110,819		20,858
<b>Balance at December 31</b>	<b>SR</b>	<b>328,642</b>	<b>SR</b>	<b>137,699</b>

## 5. Accounts receivable

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

		2005		2004
Trade accounts receivable	SR	702,086	SR	524,093
Other accounts receivable		118,531		58,301
Due from related parties (Note 6)		152,169		55,044
<b>Total</b>		<b>972,786</b>		<b>637,438</b>
Less allowance for doubtful accounts		(29,911)		(19,350)
<b>Accounts receivable - net</b>	<b>SR</b>	<b>942,875</b>	<b>SR</b>	<b>618,088</b>

Other accounts receivable at December 31, 2005 include an amount of SR 67.6 million (2004 - Nil), which represents the amount due from a government-owned trading company based in Iran, by one of the Group companies.

## 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):

		2005		2004
<b>Shareholders of a subsidiary :</b>				
Revenues - net	SR	691,252	SR	525,245
Technical services		13,765		12,606
Sale of land		7,292		—
Other		1,249		771
<b>Others:</b>				
Payments made to suppliers on behalf of Al-Sharq Company for Plastic Industries Ltd. ("Al-Sharq")		82,765		—

# Notes to Consolidated Financial Statements



A Saudi joint stock company with a capital of SR 1,500,000,000 fully paid up

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 with related parties at December 31, principally resulting from the aforementioned transactions, are as follows (000's):

		2005		2004
<b><u>Due from related parties:</u></b>				
Al-Sharq	SR	82,765	SR	—
Certain shareholders of USC		49,594		50,655
Golden Hope Plantations Berhard Company		10,253		—
Shareholder of Herfy		7,784		—
Other		1,773		4,389
<b>Total</b>	<b>SR</b>	<b>152,169</b>	<b>SR</b>	<b>55,044</b>
<b><u>Due to related parties:</u></b>				
Behshahr Industrial Development Company ("BID")	SR	26,685	SR	72,017
Savola Snacks Foods Company (see Note 9 (b))		11,321		11,321
Tate and Lyle Investments (Gulf States) Ltd.		-		5,226
<b>Total</b>	<b>SR</b>	<b>38,006</b>	<b>SR</b>	<b>88,564</b>

The balance due to BID at December 31, 2004 represented the unpaid portion of the acquisition cost of an investment acquired during 2004. This balance bore financing charges based on London Inter Bank offer Rates (LIBOR), plus a margin of 2% (to be adjusted on a quarterly basis) on the daily outstanding balance. According to the purchase agreement, this balance was payable upon the receipt of dividends from SBeC amounting to SR 52.6 million. During 2005, this balance was paid to BID. The balance at December 31, 2005 represents the related finance charges in addition to other charges that were finally determined to be SR 26 million and is payable to BID upon the receipt of dividends from SBeC.

Minority interests account as of December 31, 2005 and 2004 includes an advance payment of SR 69.8 million, 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.

# Notes to Consolidated Financial Statements

A Saudi joint stock company with a capital  
of SR 1,500,000,000 fully paid up



## 7. Inventories

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

		2005		2004
Raw and packing materials	SR	495,337	SR	361,768
Finished goods		396,428		318,221
Spare parts not held for sale		120,296		115,198
Materials in transit		82,320		147,402
Work-in-process		62,870		42,512
<b>Total</b>		<b>1,157,251</b>		<b>985,101</b>
Less provision for slow moving items		(35,050)		(12,376)
<b>Inventories - net</b>	<b>SR</b>	<b>1,122,201</b>	<b>SR</b>	<b>972,725</b>

## 8. Prepayments and other current assets

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

		2005		2004
Advances to vendors	SR	161,046	SR	30,179
Prepaid expenses		69,268		81,532
Employee housing and other advances		18,394		29,127
Other assets		36,031		7,437
<b>Total</b>	<b>SR</b>	<b>284,739</b>	<b>SR</b>	<b>148,275</b>

Advances to vendors are principally comprised of advances given by certain Group companies to their suppliers for the purchase of raw materials.

## 9. Investments

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

		2005		2004
Investments in associated companies - net	SR	930,597	SR	621,071
Investments in unconsolidated subsidiaries		8,804		8,804
Other equity investments - net		164,785		35,027
<b>Investments - net</b>	<b>SR</b>	<b>1,104,186</b>	<b>SR</b>	<b>664,902</b>



# Notes to Consolidated Financial Statements



A Saudi joint stock company with a capital of SR 1,500,000,000 fully paid up

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

		2005		2004
Balance at January 1	SR	664,902	SR	678,141
Share of profit from associated companies-net (Note 26)		171,707		141,835
Additions to investments		570,537		30,404
Investments disposed off, net of related provisions		(173,924)		(3,506)
Investment consolidated		(28,211)		(10,780)
Dividends received from an associated company		(100,825)		(120,990)
Investment in Savola Bahrain Company, offset against balance payable		—		(44,730)
Additions to provisions against investments		—		(5,472)
<b>Balance at December 31</b>	<b>SR</b>	<b>1,104,186</b>	<b>SR</b>	<b>664,902</b>

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 (%)		2005		2004
Egyptian Fertilizer Company ("EFC")	30	SR	476,516	SR	—
Al Marai Company Ltd. - Saudi Arabia ("Al-Marai")(2004 - 40.33%)	28		446,228		611,166
Equity investments in Iran	Various		7,793		9,905
Shandong Xiwang Savola Oils and Fats Company Ltd. ("Shandong") - China	25		5,472		5,472
Arabian Saline Water Technology Co. Ltd. (Behar) - Saudi Arabia	30		209		209
<b>Total</b>			<b>936,278</b>		<b>626,752</b>
Less provision for decline in the value of investments in associated companies			(5,681)		(5,681)
<b>Investments in associated companies - net</b>		<b>SR</b>	<b>930,597</b>	<b>SR</b>	<b>621,071</b>

# Notes to Consolidated Financial Statements

A Saudi joint stock company with a capital  
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During the year, the Company acquired 30% effective ownership interest in EFC, a closed joint stock company registered in the Arab Republic of Egypt. The main purpose of EFC is the manufacturing of, and wholesale and retail trading in fertilizers.

Also during the year, the Company disposed off 30% of its investment in Al-Marai through the Al-Marai Initial Public Offer. The resultant gain is included in investments income (see Note 26).

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%.

The investment in Shandong relates to an investment in a 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 fully 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, 2005 and 2004 because management believes there is a permanent decline in its value.

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

		2005		2004
Total assets	SR	6,733,905	SR	2,399,972
Total liabilities		3,881,986		1,107,315
Revenues - net		2,783,236		1,885,112
Net income		748,203		370,302

b) Investment in unconsolidated subsidiary at December 31, 2005 and 2004 is comprised of the Company's investment in Savola Snack Foods Company Ltd. ("SSFC").

Currently, SSFC is under the liquidation process. No significant gain or loss is expected upon liquidation.

Following is a summary of the financial information of SSFC as of December 31 (000's):

		2005		2004
Total assets	SR	11,321	SR	11,321
Total liabilities		2,517		2,517

# Notes to Consolidated Financial Statements



A Saudi joint stock company with a capital of SR 1,500,000,000 fully paid up

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

		2005		2004
Al-Sharq	SR	143,500	SR	—
Al-Azizia Commercial Investment Co. ("ACI") - Saudi Arabia		41,091		41,091
USCE		—		15,027
Other		1,285		—
<b>Total</b>		<b>185,876</b>		<b>56,118</b>
Less: Provision for permanent decline in the value of other equity investments		(21,091)		(21,091)
<b>Other equity investments - net</b>	<b>SR</b>	<b>164,785</b>	<b>SR</b>	<b>35,027</b>

During 2005, SPS signed an agreement to acquire 100% effective ownership interest in Al-Sharq, a limited liability company registered in Saudi Arabia, and has made a partial payment of SR 86 million. The final payment will be subject to the outcome of negotiations currently going on with the previous owner. SPS has accrued for the remaining estimated liability of SR 57.3 million (see Note 16). The main purpose of Al-Sharq is the manufacturing of, and wholesale and retail trading in plastic products.

During the 3<sup>rd</sup> quarter of 2005, a minority shareholder of Al-Sharq, owning 1% equity interest, commenced legal proceedings against SPS to exercise his right to re-purchase the shares sold by Al-Sharq's majority shareholder to SPS. The litigation is in its preliminary stages and the outcome of the proceedings cannot be estimated at the time of issuance of these consolidated financial statements. Accordingly, due to the uncertainties surrounding the completion of the transaction, Al-Sharq was not consolidated as at December 31, 2005 in the accompanying consolidated financial statements, but was accounted for at cost.

The investment in ACI represents 10% ownership 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, 2005 and 2004 as management believes there is a permanent decline in its value.

Investment in USCE at December 31, 2004 represents the amount paid by a Group company during 2004 for setting up USCE in the Arab Republic of Egypt. USCE was consolidated in the accompanying consolidated financial statements for 2005.



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## 10. Goodwill

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

		2005		2004
<b>Cost</b>				
Balance at January 1	SR	303,081	SR	261,321
Additions		—		14,605
Adjustments		3,722		27,155
Balance at December 31		306,803		303,081
<b>Accumulated amortization</b>				
Balance at January 1		(120,895)		(106,855)
Charge for the year		(10,743)		(14,040)
Adjustment for the acquisition of additional 50% share in SSFL		(40,908)		—
Provision during the year (Note 26)		(43,806)		—
Balance at December 31		(216,352)		(120,895)
Offset against minority interests		—		(42,284)
<b>Goodwill - net</b>	<b>SR</b>	<b>90,451</b>	<b>SR</b>	<b>139,902</b>

At December 31, 2004, the goodwill being offset against the minority interests represented that part of the goodwill in the books of SSFL, which related to the minority interests in SSFL. On consolidation, the gross amount of SSFL's goodwill was included in the consolidated accounts of the Group. However, for presentation purposes, it was netted off against minority interests to reflect the Group's share of goodwill. During 2005, the Group acquired the remaining 50% ownership interest in SSFL and, accordingly, the offset against minority interests was reversed and provided for during the year (Note 26).

## 11. Other non-current assets

Other non-current assets at December 31 are comprised of the following (000's):

		Deferred charges		Premium on leased land		Total
<b>Cost</b>						
Balance at January 1, 2004	SR	87,881	SR	—	SR	87,881
Additions during the year		33,704		12,800		46,504
Balance at December 31, 2004		121,585		12,800		134,385
Additions during the year		42,081		—		42,081
Adjustments		(21,509)		—		(21,509)
Balance at December 31, 2005		142,157		12,800		154,957

# Notes to Consolidated Financial Statements



A Saudi joint stock company with a capital of SR 1,500,000,000 fully paid up

	Deferred charges		Premium on leased land		Total	
<b><u>Accumulated amortization</u></b>						
Balance at January 1, 2004	SR	(65,482)	SR	—	SR	(65,482)
Additions during the year		(7,327)		—		(7,327)
Balance at December 31, 2004		(72,809)		—		(72,809)
Additions during the year		(33,004)		—		(33,004)
Adjustments		12,273		—		12,273
Balance at December 31, 2005		(93,540)		—		(93,540)
<b>Net balance at December 31, 2005</b>	<b>SR</b>	<b>48,617</b>	<b>SR</b>	<b>12,800</b>	<b>SR</b>	<b>61,417</b>
<b>Net balance at December 31, 2004</b>	<b>SR</b>	<b>48,776</b>	<b>SR</b>	<b>12,800</b>	<b>SR</b>	<b>61,576</b>

During 2005, a group company wrote off certain of its deferred charges as, in the management's opinion, no further future benefits are expected from them.

Additions to deferred charges during the year principally relate to expenses incurred by the Group on setting up new retail outlets and other projects.

## 12. Fixed assets

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

	2004		Additions/Adjustments		Disposals		2005	
<b><u>Cost</u></b>								
Land	SR	1,078,918	SR	144,792	SR	(7,708)	SR	1,216,002
Buildings		684,869		76,784		(4,093)		757,560
Machinery and equipment		1,647,136		122,346		(14,551)		1,754,931
Furniture and office equipment		234,543		38,646		(3,094)		270,095
Motor vehicles		97,835		10,680		(2,495)		106,020
Leasehold improvements		296,680		26,905		(883)		322,702
Construction in progress		470,243		516,560		—		986,803
Total		4,510,224		936,713		(32,824)		5,414,113
<b><u>Accumulated depreciation</u></b>								
Buildings		211,361		27,538		(2,548)		236,351
Machinery and equipment		801,094		109,002		(12,911)		897,185
Furniture and office equipment		171,822		24,954		(2,591)		194,185
Motor vehicles		74,998		9,047		(2,199)		81,846
Leasehold improvements		62,964		24,377		(407)		86,934
Total		1,322,239		194,918		(20,656)		1,496,501
<b>Fixed assets - net</b>	<b>SR</b>	<b>3,187,985</b>					<b>SR</b>	<b>3,917,612</b>

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Additions include SR 31.7 million in respect of interest capitalized during 2005 (2004 - SR 11.6 million). The rate used to determine the amount of finance costs capitalized during 2005 was 4.8% (2004 - 3%).

Construction in progress at December 31, 2005 and 2004 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 Murabaha financing arrangements, 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 credit facilities of SR 525 million at December 31, 2005.

## 14. Long-term debt

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

		2005		2004
<b>Saudi Industrial Development Fund ("SIDF")</b>				
USC	SR	107,159	SR	137,877
Herfy		9,974		3,510
SPS		10,050		—
<b>Total</b>		<b>127,183</b>		<b>141,387</b>
<b>Commercial banks</b>				
The Company		674,000		740,000
SEO		311,554		342,744
Herfy		23,987		—
<b>Total</b>		<b>1,009,541</b>		<b>1,082,744</b>
<b>Total long-term debt</b>		<b>1,136,724</b>		<b>1,224,131</b>
<b>Less current portion:</b>				
SIDF		(79,077)		(60,000)
Commercial banks		(115,995)		(104,857)
<b>Total</b>		<b>(195,072)</b>		<b>(164,857)</b>
<b>Long-term debt</b>	<b>SR</b>	<b>941,652</b>	<b>SR</b>	<b>1,059,274</b>





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## **SIDF loans**

The SIDF loan to USC bears annual service fee, which amounted to SR 2.4 million during 2005 (2004 - SR 2.8 million). The SIDF loan agreement includes certain covenants, which provide, among other things, restrictions relating to the maintenance of certain financial ratios. USC's fixed assets, which have a net carrying value of SR 592.7 million at December 31, 2005, 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 SIDF charged an annual service fee of SR 1.5 million during 2005. All of Herfy's fixed assets, which relate to such meat factory and have a net carrying value of SR 30.8 million at December 31, 2005, 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.

The SIDF loan to SPS was obtained in 2005 to partially finance the expansion of SPS's plastic factory in Jeddah and Riyadh. The SIDF loan to SPS bears annual service fee, which amounted to SR 74,200 during 2005. The SIDF also charged SPS a loan approval fee of SR 0.6 million during 2005, which was capitalized and included in construction in progress. The SIDF loan agreement includes certain covenants, which provide, among other things, restrictions relating to the maintenance of certain financial ratios. SPS's fixed assets, which have a net carrying value of SR 82.1 million at December 31, 2005, are pledged as collateral under the SIDF loan agreement.

The aforementioned SIDF loans do not bear finance charges.

## **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 and bear finance charges at the prevailing market rates. The related loan agreements include certain covenants relating to the maintenance of certain financial ratios. Such loans include a loan of SR 218 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 10.3 million at December 31, 2005.

The repayment schedule of the aggregate long-term debt outstanding at December 31, 2005 is summarized as follows (000's):

Year ending December 31,		
2006	SR	195,072
2007		413,850
2008		136,660
2009		274,132
2010		116,836
2011		174
<b>Total</b>	<b>SR</b>	<b>1,136,724</b>

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## 15. Accounts payable

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

		2005		2004
Trade accounts payable and other	SR	1,169,878	SR	660,157
Due to related parties (Note 6)		38,006		88,564
<b>Total</b>	<b>SR</b>	<b>1,207,884</b>	<b>SR</b>	<b>748,721</b>

Trade accounts payable and other at December 31, 2005 include an amount of SR 74 million (2004 - SR 29 million) relating to share transactions and unclaimed dividends for 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):

		2005		2004
Accrued charges	SR	212,887	SR	157,887
Other provisions		90,363		77,539
Payable relating to acquisition of Al-Sharq (Note 9 (c))		57,328		—
Staff related accruals		49,186		22,525
Advertising		33,670		35,962
Directors' remunerations (Note 28 and 33)		5,135		2,563
Zakat provision (Note 18)		1,880		1,880
<b>Total</b>	<b>SR</b>	<b>450,449</b>	<b>SR</b>	<b>298,356</b>

## 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 2006 and, accordingly, they have been classified under non-current liabilities.

## 18. Zakat and foreign income taxes

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.

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

		2005		2004
Zakat for the Company	SR	—	SR	868
Zakat of Saudi consolidated subsidiaries and foreign income taxes of non-Saudi consolidated subsidiaries		30,780		18,306
<b>Total</b>	<b>SR</b>	<b>30,780</b>	<b>SR</b>	<b>19,174</b>

## Provision for Zakat

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

		2005		2004
Balance at January 1	SR	1,880	SR	1,012
Adjustments /charge during the year		—		868
<b>Balance at December 31</b>	<b>SR</b>	<b>1,880</b>	<b>SR</b>	<b>1,880</b>

## Zakat Status

The Company has obtained the final zakat certificates through the year ended December 31, 1997. The Company is in the process of filing its 2003 and 2004 final zakat returns.

During 2004, 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 with the Zakat Objection Committee ("ZOC"). During the year, ZOC issued its decision in favour of the Company, according to which the additional zakat liability was reduced to SR 292,948. However, DZIT filed an appeal against the ZOC's decision, the outcome of which is pending at the time of issuance of the accompanying consolidated financial statements.

The Saudi 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 2005, certain Group member companies received assessment from the DZIT concerning their zakat declarations for the year 2004, in which the DZIT assessed an additional zakat liability of approximately SR 2.5 million. The Group has appealed such assessments.

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 16.4 million. The companies objected to such assessments and filed their cases with the Appeal Committee.

The aforementioned additional assessments totaling SR 35.7 million have not been provided for in the accompanying consolidated financial statements as managements of the related Group companies believe that no additional zakat liability will ultimately be payable.

Any additional zakat liability that may be assessed by the DZIT upon the finalization of the Group companies' zakat returns up to 2004 will be recorded by the Group companies when finalized with the DZIT.



# Notes to Consolidated Financial Statements

A Saudi joint stock company with a capital  
of SR 1,500,000,000 fully paid up



## 19. Employees' termination benefits

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

		2005		2004
Balance at January 1	SR	106,376	SR	71,871
Additions / acquisitions during the year		32,354		45,662
Payments / adjustments during the year		(16,414)		(11,157)
<b>Balance of December 31</b>	<b>SR</b>	<b>122,316</b>	<b>SR</b>	<b>106,376</b>

## 20. Share capital

The shareholders of the Company, in the 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 shareholders of the Company, in the extra-ordinary general assembly meeting held on March 19, 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. As a result, the share capital increased to SR 1,250 million and the number of shares increased to 25 million Shares. A transfer of SR 250 million from retained earnings affected such increase in share capital.

Also, the shareholders of the Company, in the extra-ordinary general assembly meeting held on July 16, 2005, resolved to increase the Company's share capital by issuing 1 bonus share for every 5 shares outstanding at that date. As a result, the share capital increased to SR 1,500 million and the number of shares increased to 30 million shares. A transfer of SR 250 million from general reserve affected such increase in share capital.

The Company's share capital of SR 1,500 million at December 31, 2005 (2004 - SR 1,000 million) consists of 30 million (2004 - 20 million) fully paid and issued shares of SR 50 each.

The shareholders of the Company, in the extra-ordinary general assembly meeting held on November 16, 2005, resolved to increase the Company's share capital by issuing 6 million new shares at par value of SR 50 each, and at a premium of SR 350 per share, to the existing shareholders at that date. On January 18, 2006, the Company received the regulatory approval in relation to this increase in capital.

## 21. Share premium reserve

Share premium reserve at December 31, 2005 and 2004 represents the difference between the par value and the fair value of the shares issued in prior years, less transfers to share capital in 2004 (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.

# Notes to Consolidated Financial Statements



A Saudi joint stock company with a capital of SR 1,500,000,000 fully paid up

## 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):

		2005		2004
Staff cost	SR	196,826	SR	171,381
Advertising		150,627		122,904
Rent (Note 32)		69,152		37,092
Depreciation		65,930		50,728
Utilities		42,298		32,812
Bad debts		8,866		—
Repairs, maintenance and consumables		8,467		8,769
Other		10,857		30,179
<b>Total</b>	<b>SR</b>	<b>553,023</b>	<b>SR</b>	<b>453,865</b>

## 25. General and administrative expenses

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

		2005		2004
Staff cost	SR	196,031	SR	133,528
Amortization, and write-off of deferred charges		33,004		7,327
Professional fees		24,151		10,212
Amortization and impairment of goodwill		10,743		14,040
Travel		10,078		7,666
Depreciation		9,272		12,511
Training		7,386		4,736
Utilities, telephone and communication		5,832		7,506
Insurance		4,750		3,095
Computer-related		4,318		3,477
Rent		2,802		1,797
Repairs and maintenance		2,688		2,682
Other		41,814		33,147
<b>Total</b>	<b>SR</b>	<b>352,869</b>	<b>SR</b>	<b>241,724</b>

# Notes to Consolidated Financial Statements

A Saudi joint stock company with a capital  
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Entitlements paid to the Company's Managing Directors in the form of monthly salaries, housing and transportation allowance and annual bonus amounted to SR 4.6 million for the year ended December 31, 2005 (2004 - SR 6.6 million). In addition the former managing director who resigned in March 2005 received an amount of SR 7.4 million being the success fee for Al-Marai Initial Public Offer (Note 26).

## 26. Investments income

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

		2005		2004
Gain on partial disposal of investment in an associated company - net (Note 9 (a))	SR	712,215	SR	—
Gain on sale of available-for-sale securities		193,812		118,174
Share of profit from associated companies - net		171,707		141,835
Net excess of fair value of subsidiary's underlying net assets over its purchase price		48,570		—
Gain on disposal of investments - net		16,366		89,004
Provision for impairment of goodwill		(43,806)		—
Reversal/adjustment of provision and other income		—		13,760
<b>Investments income - net</b>	<b>SR</b>	<b>1,098,864</b>	<b>SR</b>	<b>362,773</b>

Gain on disposal of investments for 2004 includes an amount of SR 90 million related to the disposal of a Group company's investment in another subsidiary.

During 2005, SEO entered into a purchase agreement with Consolidation Plantations Berhad ("CPB"), a Malaysian based company, to acquire the remaining 50% ownership interest in SSFL as part of CPB's strategic decision to exit from SSFL. As a result of the transaction, and after considering the fair value of the tangible assets of SSFL, SEO recognized the net excess of the fair value of SSFL's underlying net assets over its purchase price of SR 48.6 million as a credit to its consolidated statement of income for the year ended December 31, 2005, which is recognized in the accompanying consolidated statement of income. The purchase price was less than the fair value of the underlying net assets of SSFL due to the arrangement negotiated with CPB. Also, as a result of the above transaction, SEO recognized a foreign currency translation adjustment amounting to SR 66 million during the year.

Impairment of goodwill of SR 43.8 million for the year ended December 31, 2005 principally relates to write down by the Group of its goodwill in certain subsidiaries.

## 27. Other income

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

		2005		2004
Promotional and display income	SR	55,306	SR	33,213
Scrap sales		29,682		14,430
Toll manufacturing income		20,519		—
Rental income		11,459		8,779
Other - net		7,167		6,136
<b>Other income - net</b>	<b>SR</b>	<b>124,133</b>	<b>SR</b>	<b>62,558</b>





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## **28. Director's remunerations**

The remunerations due to the Board of Directors for the year ended December 31, 2005 amounted to SR 2.4 million (2004 - SR 2.3 million). Attendance allowances amounted to SR 0.5 million for 2005 (2004 - SR 0.5 million) for attending Board meetings held during the year.

## **29. Earnings per share**

Earnings per share for the year ended December 31, 2004 have been computed by dividing the net income for such year by 30 million shares to give a retroactive effect of the share capital increase mentioned in Note 20.

## **30. Commitments and contingencies**

The Group has outstanding bank guarantees and letters of credit amounting to SR 125.6 million at December 31, 2005 (2004 - SR 36 million), which were issued in the normal course of business. Also see Note 9 with respect to litigation involving the Company's investment in Al-Sharq, 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 86.8 million (2004 - 88.9 million) against an SIDF loan to a associated company.

At December 31, 2005, a Group member company had commitments to purchase approximately 341,000 tons (2004 - 305,450 tons) of raw sugar at prices, which will approximate market prices prevailing on shipment dates, with deliveries spread between January 2006 and April 2006. Also, at December 31, 2005, the Group member company had commitments to sell in 2006 refined sugar of approximately 106,202 tons (2004 - 126,454 tons to sell in 2005) at prices, which would approximate the prevailing market prices at the contract date.

At December 31, 2005, SBeC has issued promissory notes to certain local banks in Iran amounting to approximately SR 1.6 billion (2004 - SR 818.7 million) against bank facilities provided by those banks to SBeC's subsidiaries.

During December 2005, the Company signed a commitment letter to invest up to US\$ 100 million (SR 375 million) in Swicorp Josour Company (proposed), whose main purpose will be to invest in energy and petrochemical related projects.

Also, during December 2005, the Board of Directors resolved to invest up to 4.2% in the proposed capital of the proposed King Abdullah Economic City project.

# Notes to Consolidated Financial Statements

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## 31. Segment reporting

During the years ended December 31, 2005 and 2004, 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, 2005 and 2004, and for the years then ended, summarized by segment, is as follows (SR in 000's):

	<b>Manufacturing / wholesale</b>	<b>Retail</b>	<b>Other</b>	<b>Total</b>
<b>2005</b>				
Fixed assets - net	1,461,620	2,437,579	18,413	3,917,612
Other non-current assets - net	215,162	105,397	935,495	1,256,054
Revenues - net	4,407,569	2,433,327	15,588	6,856,484
Net income	220,074	54,823	927,277	1,202,174
<b>2004</b>				
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
Revenues - net	3,494,071	2,092,480	15,428	5,601,979
Net income	258,213	61,208	182,953	502,374

The Group's operations are conducted in Saudi Arabia, Egypt, Iran and certain other geographical areas. Selected financial information as of December 31, 2005 and 2004, and for the years then ended, summarized by geographic area, is as follows (SR 000's):

	<b>Saudi Arabia</b>	<b>Egypt</b>	<b>Iran</b>	<b>Other countries</b>	<b>Total</b>
<b>2005</b>					
Fixed assets - net	3,256,846	89,163	427,108	144,495	3,917,612
Other non-current assets - net	693,233	482,931	8,076	71,814	1,256,054
Revenues - net	4,852,675	579,881	1,064,341	359,587	6,856,484
Net income (loss)	1,110,228	85,123	87,159	(80,336)	1,202,174
<b>2004</b>					
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	90,816	866,380
Revenues - 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



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## 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, 2005 amounted to SR 38.6 million (2004 - SR 41.7 million).

Operating leases with terms expiring within one year and in excess of one year as of December 31, 2005 are as follows (in millions):

Within one year	SR	333.0
Between two and five years		172.3
More than five years		190.3
<b>Total</b>	<b>SR</b>	<b>695.6</b>

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, 2005 amounted to SR 95.2 million (2004 - SR 31.5 million).

Operating leases for rental income with terms expiring within one year and in excess of one year as of December 31, 2005 are as follows (in millions):

Within one year	SR	73.6
Between two and five years		187.1
More than five years		320.6
<b>Total</b>	<b>SR</b>	<b>581.3</b>

## 33. Appropriation of net income

In the general assembly annual meeting, which was held on Rabi-ul-Awal 25, 1426H (May 4, 2005), the shareholders approved the appropriation of the 2004 net income as follows:

Payment of SR 2.3 million as Board of Directors' remunerations.

Declared dividends amounting to SR 75 million to the shareholders (representing SR 3 per share).

In its meetings held during 2005, the Board of Directors approved the payments of interim dividends to the shareholders amounting to SR 270 million (representing SR 9 per share for the 30 million shares that were outstanding on those dates - see Note 20). These decisions are expected to be ratified by the shareholders in their general assembly annual meeting scheduled on April 15, 2006.





## 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, 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 position 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 the market interest rates. The Group's interest rate risks arise mainly from its short-term and long-term borrowings, which are at floating rates of interest. Short-term borrowings are subject to re-pricing on a regular basis. Management monitors the changes in interest rates and believes that the 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 a 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 riyal, United States dollar, Euro, Iranian riyal, Egyptian pound 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 revaluation of the available-for-sale securities at fair value through equity, and the consolidation of foreign subsidiaries at fair values, adjusted by the negative goodwill, differences can arise between the book values and the fair value 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

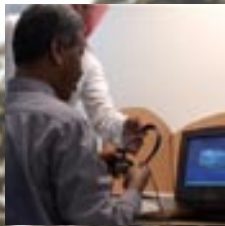
The Board of Directors, in its meeting held on January 29, 2006, proposed to increase the Company's share capital by issuing two bonus shares for every three shares outstanding as of that date, and approved the payment of a final dividend amounting to SR 108 million to the shareholders (representing SR 3 per share for the 36 million shares excluding the new 24 million bonus shares to be issued). These decisions are expected to be ratified by the shareholders in their general assembly annual meeting scheduled on April 15, 2006.

These financial statements were approved by the Board of Directors on March 5, 2006.

HEADQUARTERS



# *Headquarters*



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

A Saudi joint stock company with a capital  
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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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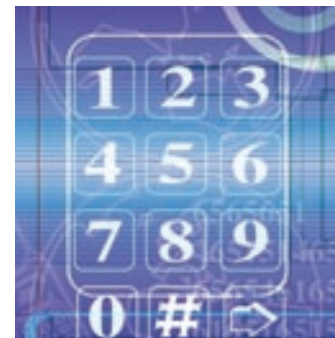
### Real Estate Division

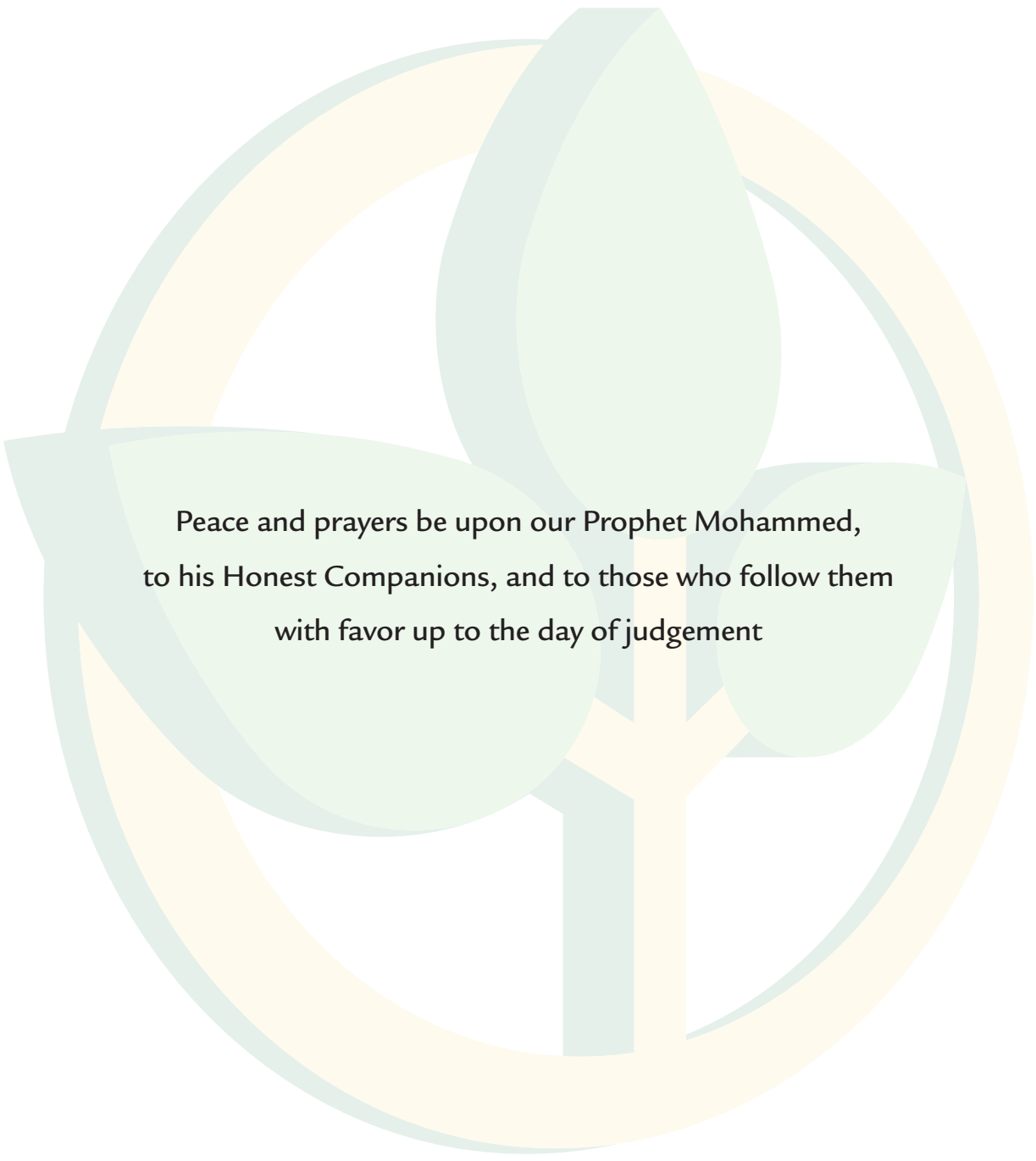
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Peace and prayers be upon our Prophet Mohammed,  
to his Honest Companions, and to those who follow them  
with favor up to the day of judgement