

SAVOLA GROUP COMPANY
(Saudi Joint Stock Company)

**Consolidated Financial Statements for the
Years ended December 31, 2003 and 2002 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

February 25, 2004

To the Shareholders of Savola Group Company:

We have audited the accompanying consolidated balance sheets of Savola Group Company (the "Company"), a Saudi joint stock company, and its subsidiaries as of December 31, 2003 and 2002 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended, and the notes which form an integral part of the consolidated financial statements. These consolidated financial statements, which were prepared by the Company to comply with applicable articles of the Regulations for Companies and presented to us with all information and explanations which we required, are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

- Present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 2003 and 2002 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Saudi Arabia appropriate to the circumstances of the Company and its subsidiaries; and
- Comply, in all material respects, with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

AL JURAID & COMPANY

By: _____
Sami B. Al Sarraj
License Number 165

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002
(In thousands)

	Notes	2003	2002
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	3	SR 166,372	SR 106,675
Accounts receivable - net	4, 5	294,190	393,162
Inventories - net	6	537,806	415,939
Prepayments and other assets	7	<u>112,702</u>	<u>92,104</u>
Total current assets		1,111,070	1,007,880
INVESTMENTS - Net	8	669,337	468,406
GOODWILL - Net	9	109,141	118,480
DEFERRED CHARGES - Net	10	22,399	13,780
FIXED ASSETS - Net	11, 13	<u>2,026,529</u>	<u>1,863,088</u>
TOTAL		<u>SR 3,938,476</u>	<u>SR 3,471,634</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
CURRENT LIABILITIES:			
Short-term bank borrowings	12	SR 738,695	SR 284,135
Current portion of long-term debt	13	72,558	81,766
Accounts payable	5, 14	404,933	345,578
Accrued expenses and other liabilities	15, 16	<u>179,720</u>	<u>292,858</u>
Total current liabilities	12	1,395,906	1,004,337
LONG-TERM PAYABLES	17	109,308	89,321
LONG-TERM DEBT	13	141,054	210,131
EMPLOYEES' TERMINATION BENEFITS	18	<u>71,871</u>	<u>66,118</u>
Total liabilities		<u>1,718,139</u>	<u>1,369,907</u>
MINORITY INTERESTS	5	<u>370,495</u>	<u>384,038</u>
COMMITMENTS AND CONTINGENCIES	28, 30		
SHAREHOLDERS' EQUITY:			
Share capital	19	800,000	628,571
Share premium reserve	19, 20	209,000	380,429
Statutory reserve	21	344,394	314,286
General reserve	22	254,000	254,000
Foreign currency translation adjustments		(63,452)	(49,866)
Retained earnings		<u>305,900</u>	<u>190,269</u>
Total shareholders' equity		<u>1,849,842</u>	<u>1,717,689</u>
TOTAL		<u>SR 3,938,476</u>	<u>SR 3,471,634</u>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In thousands)

	<u>Notes</u>	<u>2003</u>	<u>2002</u>
SALES - Net	5	SR 4,127,801	SR 3,641,258
COST OF SALES		<u>(3,324,614)</u>	<u>(2,846,213)</u>
GROSS PROFIT		803,187	795,045
EXPENSES:			
Selling and marketing	23	(376,278)	(364,523)
General and administrative	5, 24	<u>(196,346)</u>	<u>(213,995)</u>
OPERATING INCOME		230,563	216,527
OTHER INCOME (EXPENSES):			
Investments income - net	25	174,985	94,266
Amortization of goodwill	9	(14,925)	(11,441)
Financing cost	12, 13	(30,379)	(32,296)
Other income		<u>19,591</u>	<u>18,213</u>
INCOME BEFORE ZAKAT AND FOREIGN INCOME TAX AND MINORITY INTERESTS		379,835	285,269
ZAKAT AND FOREIGN INCOME TAX	16	<u>(7,005)</u>	<u>(9,042)</u>
INCOME BEFORE MINORITY INTERESTS		372,830	276,227
MINORITY INTERESTS		<u>(71,749)</u>	<u>(68,665)</u>
NET INCOME		<u>SR 301,081</u>	<u>SR 207,562</u>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In thousands)

	<u>Notes</u>	<u>2003</u>	<u>2002</u>
SHARE CAPITAL:			
Balance at January 1		SR 628,571	SR 628,571
Bonus shares issued during the year	19	<u>171,429</u>	<u>-</u>
Balance at December 31		<u>800,000</u>	<u>628,571</u>
SHARE PREMIUM RESERVE:			
Balance at January 1		380,429	380,429
Bonus shares issued during the year	19	<u>(171,429)</u>	<u>-</u>
Balance at December 31		<u>209,000</u>	<u>380,429</u>
STATUTORY RESERVE:			
Balance at January 1		314,286	314,286
Transfer from retained earnings	21	<u>30,108</u>	<u>-</u>
Balance at December 31		<u>344,394</u>	<u>314,286</u>
GENERAL RESERVE:			
Balance at January 1 and December 31		<u>254,000</u>	<u>254,000</u>
FOREIGN CURRENCY TRANSLATION			
ADJUSTMENTS:			
Balance at January 1		(49,866)	(45,891)
Adjustments during the year		<u>(13,586)</u>	<u>(3,975)</u>
Balance at December 31		<u>(63,452)</u>	<u>(49,866)</u>
RETAINED EARNINGS:			
Balance at January 1		190,269	135,864
Net income		301,081	207,562
Transfer to statutory reserve	21	(30,108)	-
Dividends (2002 - proposed)	31	(153,142)	(150,857)
Directors' remunerations	26	<u>(2,200)</u>	<u>(2,300)</u>
Balance at December 31		<u>305,900</u>	<u>190,269</u>
TOTAL SHAREHOLDERS' EQUITY		<u>SR 1,849,842</u>	<u>SR 1,717,689</u>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In thousands)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	SR 301,081	SR 207,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Investment income - net	(174,985)	(94,266)
Amortization	25,395	27,594
Depreciation	131,345	140,029
(Gain) loss on sale of fixed assets	(1,014)	8,097
Share of minority interests in the net income of the consolidated subsidiaries	71,749	68,665
Change in operating assets and liabilities:		
Accounts receivable	(13,952)	17,291
Inventories	(121,867)	60,135
Prepayments and other current assets	(20,598)	(4,958)
Accounts payable	12,979	(12,662)
Accrued expenses and other current liabilities	35,519	(19,345)
Employees' termination benefits	<u>5,753</u>	<u>4,602</u>
Net cash provided by operating activities	<u>251,405</u>	<u>402,744</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Dividend received from an associated company	112,924	100,825
Proceeds from sale of investments	394	32,413
Additions to investments	(10,780)	-
Additions to investments in marketable securities	(141,471)	-
Proceeds from sale of marketable securities	172,287	-
Adjustments to goodwill - net of additions	(5,586)	2,494
Additions to deferred charges	(19,089)	(8,034)
Additions to fixed assets - net	<u>(307,358)</u>	<u>(172,478)</u>
Net cash used by investing activities	<u>(198,679)</u>	<u>(44,780)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in short-term bank borrowings	454,560	33,756
Repayment of long-term debt	(81,765)	(303,743)
Additions to long-term debt	3,480	61,713
Dividends paid	(284,012)	(134,324)
Changes in minority interests	<u>(85,292)</u>	<u>(17,261)</u>
Net cash provided (used) by financing activities	<u>6,971</u>	<u>(359,859)</u>

(Continued)

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(In thousands)

	<u>2003</u>	<u>2002</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	SR 59,697	SR (1,895)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>106,675</u>	<u>108,570</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>SR 166,372</u>	<u>SR 106,675</u>
SUPPLEMENTAL SCHEDULE OF NON-CASH INFORMATION:		
Dividend from an associated company charged to other accounts receivable	<u>SR -</u>	<u>SR 112,924</u>
Directors' remunerations	<u>SR 2,200</u>	<u>SR 2,300</u>
Proposed dividends	<u>SR -</u>	<u>SR 150,857</u>
Changes in long-term payables	<u>SR 19,987</u>	<u>SR 3,962</u>
Unrealized loss on investments recognized in the consolidated statement of income	<u>SR -</u>	<u>SR 8,910</u>
Foreign currency translation adjustments	<u>SR 13,586</u>	<u>SR 3,975</u>
Investment in a subsidiary unconsolidated in the current year - net	<u>SR 46,376</u>	<u>SR -</u>

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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:

<u>Name</u>	<u>Country of incorporation</u>	<u>Effective ownership interest (%) at December 31,</u>	
		<u>2003</u>	<u>2002</u>
Savola Packaging Systems Limited	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 Snack Foods Company Ltd. ("SSFC") - under liquidation	Saudi Arabia	100	100
Savola Trading International Limited	Virgin Islands	100	100
Tayseer FZCO	UAE	100	100
Azizia Panda Trading Company ("APTC")	Saudi Arabia	100	-
Al Azizia - Panda Al Qassim Company	Saudi Arabia	100	90
Savola Edible Oils Company Limited ("SEO")	Saudi Arabia	90.43	90.25
Herfy Food Services Company Ltd.	Saudi Arabia	70	70
Savola Industrial Investments Co. ("SIIC")	Saudi Arabia	63.5	63.5
Saudi Paper Cups & Containers Co.	Saudi Arabia	-	100

SEO also has the following consolidated subsidiaries:

<u>Name</u>	<u>Country of incorporation</u>	<u>Ownership interest (%) at December 31,</u>	
		<u>2003</u>	<u>2002</u>
Malintra Holdings	Luxembourg	100	100
Savola Bahrain Company (see Note 8 - b)	Bahrain	-	90
Savola Jordan Company ("SJC")	Jordan	75	51
Savola Morocco Company	Morocco	51	-
Savola Sime Foods Limited ("SSFL")	Virgin Islands	50	50

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.

Tayseer FZCO was set up during 2002 as a limited liability company in the United Arab Emirates for the purpose of trading in food products. It has not started operations as of December 31, 2003.

During 2003, the Company set up APTC as a limited liability company in Saudi Arabia. APTC has not commenced operations as of December 31, 2003.

During 2002, the Company resolved to liquidate SSFC. However, the legal liquidation process has not commenced as of December 31, 2003.

During 2003, SEO increased its ownership interest in SJC from 51% to 75% by acquiring additional shares from the Jordanian shareholder. Such change in ownership was approved by the regulatory authorities in Jordan.

Also, during 2003, the Group increased its ownership interest in Al Azizia - Panda Al Qassim Company from 90% to 100% by acquiring the minority shareholder's interest in that company.

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

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, 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.

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 - Time deposits purchased with original maturities of less than three months are included in cash and cash equivalents.

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

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

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

Investments in associated companies - Investments in associated companies, in which the Group has an effective ownership interest of less than 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.

Other equity investments - Other equity investments, which are not held for trading purposes, principally consist of less than 20% equity investments in various limited liability companies, and are recorded at cost when acquired. The carrying values are adjusted based on the fair values of these companies as of the consolidated balance sheet date, unless it is determined that the fair values cannot be estimated, in which case such investments are reflected at cost. Unrealized gains or losses resulting from changes in fair values are reported as a separate component of shareholders' equity. Such changes in fair values were not material as of December 31, 2003 and 2002. Permanent diminution, if any, in the value of such investments is charged to income currently. Consequently, any related unrealized losses that had been previously recognized directly in shareholders' equity are charged to the consolidated statement of income.

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.

Deferred charges - Deferred charges consist of expenses incurred by the Group on setting up new retail outlets and other projects, which are expected to have future benefits. Such expenses are being 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.

Fixed assets - Fixed assets are stated at cost and are depreciated using the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Land	-
Buildings	20 - 33
Machinery and equipment	3 - 20
Furniture and office equipment	4 - 10
Motor vehicles	3 - 4
Leasehold improvements	15 - 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.

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, including goodwill, 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. For the purpose of assessing impairment, assets are grouped at the lowest possible level 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 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 payable as a lump sum to all employees employed under the terms and conditions of the Saudi Labor and Workman Law on termination of their employment contracts. The liability is calculated as the current value of the vested benefits to which the employee is entitled, should the employee leave at the consolidated balance sheet date. Termination payments are based on the employees' final salaries and allowances and their cumulative years of service, as defined by the conditions stated in the laws of the Kingdom of Saudi Arabia.

Revenue recognition - Sales 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.

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

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

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

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

Foreign currency translation - The Company's books of account are maintained in Saudi riyals. Foreign currency transactions are translated into Saudi riyals at the market rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are adjusted to reflect their Saudi riyal equivalents as of the consolidated balance sheet date. Exchange adjustments, which were not significant for 2003 and 2002, are charged or credited to the consolidated statement of income currently.

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

Reclassifications - Certain amounts in the 2002 consolidated financial statements have been reclassified to conform with the 2003 presentation.

3. CASH AND CASH EQUIVALENTS

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

	<u>2003</u>	<u>2002</u>
Cash at banks - current accounts	SR 101,894	SR 49,035
Time deposits	56,043	52,765
Cash in hand	<u>8,435</u>	<u>4,875</u>
Total	<u>SR 166,372</u>	<u>SR 106,675</u>

Time deposits at December 31, 2002 include restricted deposits of approximately SR 47 million (2003 - Nil), which were blocked against bank facilities granted to SSE by a foreign bank.

4. ACCOUNTS RECEIVABLE

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

	<u>2003</u>	<u>2002</u>
Trade accounts receivable	SR 203,739	SR 210,743
Other accounts receivable	76,991	172,642
Due from related parties (Note 5)	<u>34,429</u>	<u>36,815</u>
Total	315,159	420,200
Less: Allowance for doubtful accounts	<u>(20,969)</u>	<u>(27,038)</u>
Accounts receivable - net	<u>SR 294,190</u>	<u>SR 393,162</u>

5. RELATED PARTY MATTERS

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

	<u>2003</u>	<u>2002</u>
Sales - net	<u>SR 509,883</u>	<u>SR 478,698</u>
Technical services	<u>SR 13,276</u>	<u>SR 10,525</u>
Other	<u>SR 2,916</u>	<u>SR -</u>

Pricing and terms of payment for these transactions are approved by the management 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 supermarket operations. The terms of such transactions are determined by the management with reference to the wholesale market prices of such goods and commodities.

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

	<u>2003</u>	<u>2002</u>
<u>Due from related parties:</u>		
Certain shareholders of USC	SR 30,418	SR 36,815
Savola Morocco Company	1,101	-
Other	<u>2,910</u>	<u>-</u>
Total	<u>SR 34,429</u>	<u>SR 36,815</u>
<u>Due to related parties:</u>		
Savola Bahrain Company (see Note 8 (b))	SR 46,376	SR -
Tate and Lyle Investments (Gulf States) Ltd.	6,715	6,192
Other	<u>331</u>	<u>-</u>
Total	<u>SR 53,422</u>	<u>SR 6,192</u>

Included in minority interests account is an advance payment of SR 69.8 million as of December 31, 2003 and 2002, 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 and is expected to be used only for the increase of USC's capital.

6. INVENTORIES

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

	<u>2003</u>	<u>2002</u>
Finished goods	SR 250,264	SR 233,789
Raw materials	164,644	96,405
Spare parts not held for sale	68,994	66,569
Materials in transit	53,910	21,342
Work-in-process	<u>13,598</u>	<u>11,583</u>
Total	551,410	429,688
Less: Provision for slow moving items	<u>(13,604)</u>	<u>(13,749)</u>
Inventories - net	<u>SR 537,806</u>	<u>SR 415,939</u>

7. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	<u>2003</u>	<u>2002</u>
Prepaid rental charges	SR 27,971	SR 23,809
Other prepayments	32,799	21,930
Advances to vendors and other	<u>51,932</u>	<u>46,365</u>
Total	<u>SR 112,702</u>	<u>SR 92,104</u>

8. INVESTMENTS

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

	<u>2003</u>	<u>2002</u>
Investments in associated companies - net	SR 590,321	SR 447,906
Investments in unconsolidated subsidiaries	59,016	-
Other equity investments - net	<u>20,000</u>	<u>20,500</u>
Investments - net	<u>SR 669,337</u>	<u>SR 468,406</u>

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

	<u>2003</u>	<u>2002</u>
Balance at January 1	SR 468,406	SR 489,827
Additions to investments in marketable securities	141,471	-
Disposals of marketable securities	(141,471)	-
Share of profit from an associated company	144,059	138,914
Additions to investments	10,780	-
Investments disposed off	(500)	(17,093)
Dividend received from an associated company	-	(121,875)
Investment in SBC, net of profit share	44,730	-
Movement in provisions related to investments	<u>1,862</u>	<u>(21,367)</u>
Balance at December 31	<u>SR 669,337</u>	<u>SR 468,406</u>

- 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 (%)	<u>2003</u>	<u>2002</u>
Al Marai Company Ltd. - Saudi Arabia	40.33	SR 590,321	SR 449,668
Saudi Arabian Glass Company ("SAGCO") - Saudi Arabia	51	71,171	71,171
Wazir Ali Industries Ltd. - Pakistan	40	2,446	2,446
Arabian Saline Water Technology Co. Ltd. (Behar) - Saudi Arabia	30	<u>209</u>	<u>209</u>
		664,147	523,494
Less: Provision for decline in the value of investments in associated companies		<u>(73,826)</u>	<u>(75,588)</u>
Investments in associated companies - net		<u>SR 590,321</u>	<u>SR 447,906</u>

SAGCO was not consolidated in 2003 and 2002 because the control of SAGCO does not rest with the Group. At December 31, 2000, management decided to write off in full the goodwill that related to its investment in SAGCO and to fully provide for this investment because management believed that there was a permanent decline in its value. Subsequently, SAGCO has reported net income for 2003 and 2002, which was not significant. However, management of the Group still believes that the circumstances surrounding their conclusion on the permanent decline in the value of such investment have not significantly changed. Accordingly, the Group has not accounted for its share in SAGCO's net income for 2003 and 2002.

The investment in Behar was also fully provided for by the Group as of December 31, 2003 and 2002 because management believes there is a permanent decline in its value. The Group has not accounted for its share in the results of Behar for 2003 and 2002 as the net carrying value of such investment is nil at December 31, 2003 and 2002, and management believes that no additional losses will be incurred by the Group.

The Group has provided corporate guarantees to local commercial banks in relation to loans amounting to SR 143 million (2002 - SR 151 million) obtained by SAGCO and Behar from those banks.

During 2003, the Group provided for its investment in Wazir Ali Industries Ltd. due to permanent decline in its value.

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

	<u>2003</u>	<u>2002</u>
Savola Bahrain Company ("SBC")	SR 48,236	SR -
Savola Morocco Company ("SMC")	<u>10,780</u>	<u>-</u>
Total	<u>SR 59,016</u>	<u>SR -</u>

Following is a summary of the combined financial information for the unconsolidated subsidiaries (000's):

For the year ended December 31, 2003

Net income	SR 2,739
As of December 31, 2003	
Total assets	59,686
Total liabilities	670

The Group's effective ownership interest in SBC is 100% (90% through SEO and 10% through the Company). SBC did not have any operations during 2003 and 2002. On September 17, 2003, the shareholders of SBC convened a meeting and resolved to liquidate SBC and appointed a liquidator. Currently, the subsidiary is under the liquidation process. Accordingly, the subsidiary's financial statements for 2003 were not consolidated in the accompanying consolidated financial statements.

Upon the completion of liquidation process of SBC, the recorded investment in SBC of SR 48.2 million will be offset against the recorded balance payable to SBC of SR 46.4 million (see Note 5).

SMC was set up as a limited liability company in Morocco for the purpose of manufacturing and trading in edible oil products. As of December 31, 2003, SMC was under development. Management expects that SMC will become operational in 2004.

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

	<u>Ownership interest (%)</u>	<u>2003</u>	<u>2002</u>
Al-Azizia Commercial Investment Co. ("ACI") - Saudi Arabia	10	SR 41,091	SR 41,091
Other	Below 1% each	<u>-</u>	<u>600</u>
		41,091	41,691
Less: Provision for permanent decline in the value of other equity investments		<u>(21,091)</u>	<u>(21,191)</u>
Other equity investments - net		<u>SR 20,000</u>	<u>SR 20,500</u>

During 2002, the Group provided for its investment in ACI due to permanent decline in its value.

9. GOODWILL

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

	<u>2003</u>	<u>2002</u>
<u>Cost</u>		
Balance at beginning of year	SR 276,884	SR 316,038
Additions	1,886	3,247
Provisions and adjustments	<u>(17,449)</u>	<u>(42,401)</u>
Balance at end of year	<u>261,321</u>	<u>276,884</u>
<u>Accumulated amortization</u>		
Balance at beginning of year	(91,930)	(80,489)
Charge for the year	<u>(14,925)</u>	<u>(11,441)</u>
Balance at end of year	<u>(106,855)</u>	<u>(91,930)</u>
Offset against minority interests	<u>(45,325)</u>	<u>(66,474)</u>
Goodwill - net	<u>SR 109,141</u>	<u>SR 118,480</u>

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

10. DEFERRED CHARGES

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

	<u>2003</u>	<u>2002</u>
<u>Cost</u>		
Balance at beginning of year	SR 159,313	SR 151,279
Write off of fully amortized deferred charges	(90,521)	-
Additions during the year	<u>19,089</u>	<u>8,034</u>
Balance at end of year	<u>87,881</u>	<u>159,313</u>
<u>Accumulated amortization</u>		
Balance at beginning of year	(145,533)	(129,380)
Write off of fully amortized deferred charges	90,521	-
Charge for the year	<u>(10,470)</u>	<u>(16,153)</u>
Balance at end of year	<u>(65,482)</u>	<u>(145,533)</u>
Deferred charges - net	<u>SR 22,399</u>	<u>SR 13,780</u>

11. FIXED ASSETS

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

	<u>2002</u>		<u>Additions</u>		<u>Disposals/ transfers</u>		<u>Foreign currency translation adjustments</u>		<u>2003</u>	
<u>Cost</u>										
Land	SR	474,365	SR	130,332	SR	(1,162)	SR	(2,957)	SR	600,578
Buildings		576,817		4,888		(16,889)		(3,182)		561,634
Machinery and equipment		1,376,985		101,195		(100,166)		(13,607)		1,364,407
Furniture and office equipment		184,963		19,325		(5,727)		(569)		197,992
Motor vehicles		82,418		11,001		(5,039)		(702)		87,678
Leasehold improvements		145,280		10,656		(3,928)		(22)		151,986
Construction in progress		<u>119,165</u>		<u>61,165</u>		<u>-</u>		<u>-</u>		<u>180,330</u>
Total		<u>2,959,993</u>		<u>338,562</u>		<u>(132,911)</u>		<u>(21,039)</u>		<u>3,144,605</u>
<u>Accumulated depreciation</u>										
Buildings		163,414		20,240		(13,070)		(184)		170,400
Machinery and equipment		704,434		63,893		(85,144)		(1,489)		681,694
Furniture and office equipment		126,030		29,344		(4,979)		(241)		150,154
Motor vehicles		62,732		8,995		(4,500)		(224)		67,003
Leasehold improvements		<u>40,295</u>		<u>8,873</u>		<u>(336)</u>		<u>(7)</u>		<u>48,825</u>
Total		<u>1,096,905</u>		<u>131,345</u>		<u>(108,029)</u>		<u>(2,145)</u>		<u>1,118,076</u>
Fixed assets - net	<u>SR</u>	<u>1,863,088</u>								<u>SR 2,026,529</u>

Construction in progress at December 31, 2003 and 2002 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 member 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 13 with respect to the pledge of certain fixed assets of the Group as collateral to Saudi Industrial Development Fund and commercial banks.

12. SHORT-TERM BANK BORROWINGS

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

The Group has unused bank borrowings facilities of SR 287 million as of December 31, 2003. At December 31, 2003, the Groups' consolidated total current liabilities exceeded its total current assets by SR 285 million. Management believes that these unused facilities will be utilized to meet the Group's financial obligations as they become due.

13. LONG-TERM DEBT

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

	<u>2003</u>	<u>2002</u>
Saudi Industrial Development Fund ("SIDF")	SR 185,437	SR 234,664
Commercial banks	<u>28,175</u>	<u>57,233</u>
Total	<u>213,612</u>	<u>291,897</u>
Less current portion:		
SIDF	(61,500)	(52,708)
Commercial banks	<u>(11,058)</u>	<u>(29,058)</u>
Total	<u>(72,558)</u>	<u>(81,766)</u>
Long-term debt	<u>SR 141,054</u>	<u>SR 210,131</u>

The loans from SIDF, which have been provided to certain subsidiaries of the Company, bear annual service fees, which amounted to SR 2.8 million during 2003 (2002 - SR 2.7 million). The cumulative SIDF loan approval fees of SR 8.3 million at December 31, 2003 (2002 - SR 8.3 million) have been deferred by the subsidiaries and are being amortized over the period of the related loans.

The SIDF loan agreements include certain covenants that provide, among other things, restrictions relating to the payment of dividends, capital expenditures and rental charges, and the maintenance of certain financial ratios. As of December 31, 2003, a loan covenant, namely the payment of dividends, was not met by a subsidiary. The subsidiary's management has informed the SIDF about this matter, and believes that the SIDF will not take any action as a result of this. Accordingly, the loan amount has been classified in accordance with its repayment terms.

All of the related subsidiaries' fixed assets, which have a net book value of SR 620 million at December 31, 2003 (2002 - SR 619 million) are pledged as collateral under the SIDF loan agreements. The SIDF loans are also secured by corporate guarantees of the Company.

The commercial bank loans bear finance charges at the prevailing market rates and are partly secured by corporate guarantees of the Company.

In addition, certain fixed assets of the Group member companies, with a net carrying value of SR 24 million as of December 31, 2003 (2002 - SR 24 million), are pledged as collateral under the commercial bank loan agreements.

The aggregate repayment schedule of the long-term debt outstanding at December 31, 2003 is summarized as follows (000's):

Year ending December 31,	
2004	SR 72,558
2005	72,117
2006	<u>68,937</u>
Total	<u>SR 213,612</u>

14. ACCOUNTS PAYABLE

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

	<u>2003</u>	<u>2002</u>
Trade accounts payable	SR 303,054	SR 239,748
Non-trade accounts payable	48,457	99,638
Due to related parties (Note 5)	<u>53,422</u>	<u>6,192</u>
Total	<u>SR 404,933</u>	<u>SR 345,578</u>

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	<u>2003</u>	<u>2002</u>
Accrued charges	SR 98,478	SR 90,495
Other provisions	48,750	37,417
Advertising	29,280	10,716
Directors' remunerations (Note 26)	2,200	2,300
Zakat provision (Note 16)	1,012	1,073
Proposed dividends (Notes 31 and 33)	<u>-</u>	<u>150,857</u>
Total	<u>SR 179,720</u>	<u>SR 292,858</u>

16. ZAKAT AND FOREIGN INCOME TAX

Zakat and foreign income taxes are charged to the consolidated statements 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 company are comprised of shareholders' equity, provisions at the beginning of the year and adjusted net income, less deductions for the net book value of fixed assets, investments and certain other items. Zakat and foreign income tax included in the consolidated statements of income for the years ended December 31 are as follows (000's):

	<u>2003</u>	<u>2002</u>
Zakat for the Company	SR -	SR -
Zakat and foreign income tax of consolidated subsidiaries	<u>7,005</u>	<u>9,042</u>
Total	<u>SR 7,005</u>	<u>SR 9,042</u>

Provision for Zakat

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

	<u>2003</u>	<u>2002</u>
Balance at January 1	SR 1,073	SR 1,535
Adjustments during the year	<u>(61)</u>	<u>(462)</u>
Balance at December 31	<u>SR 1,012</u>	<u>SR 1,073</u>

There were no additional zakat charges for 2003 and 2002 due to the negative zakat base.

Zakat Status

The Company has obtained the final zakat certificates through the year ended December 31, 1997.

The Company received queries from the DZIT concerning the Company's declarations for the years 1999 to 2001. Management is in the process of preparing the responses to the DZIT queries. The Company is also in the process of filing its 2002 final zakat return.

The DZIT also assessed an additional zakat liability of SR 4.9 million concerning the years 1999 and 2000, against which the Company filed an objection letter. Management believes that the DZIT will revise its assessment. Accordingly, such amount was not provided for in the accompanying consolidated financial statements.

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

During 2002, a Group member company received assessments from the DZIT concerning its zakat declarations for the years 1996 to 2001, in which the DZIT assessed an additional zakat liability of approximately SR 8.6 million. The management of the subsidiary had appealed such assessment and subsequently received a revised assessment from the DZIT for a revised zakat liability of SR 3.6 million. However, management has again appealed such assessment and believes that only SR 2.3 million may be ultimately payable to the DZIT and, accordingly, no liability for the remaining balance of SR 1.3 million has been recorded in the accompanying consolidated financial statements.

During 2003, a former Group member company, namely Saudi Paper Cups and Containers Co. Ltd., received final zakat assessments for the years 1995 to 2001 in which the DZIT claimed additional zakat liability of SR 2.1 million from the Company, being the former majority shareholder. Also, during 2003, a Group member company received an assessment from the DZIT concerning its zakat declaration for 2000, in which the DZIT assessed an additional zakat liability of approximately SR 0.6 million. The Company objected against such assessments and filed these cases with the Appeal Committee. Management believes that no additional zakat liability will be ultimately payable and, accordingly, no liability has been recorded in the accompanying consolidated financial statements for such amounts.

Any additional zakat liability that may be assessed by the DZIT upon the finalization of the Group companies' zakat returns up to 2002 will be recorded by the Group member companies when finalized with the DZIT.

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 amount has not yet been claimed by the respective shareholders for several years. In the opinion of management, such amount is unlikely to be paid during 2004 and, accordingly, it is classified under non-current liabilities.

18. EMPLOYEES' TERMINATION BENEFITS

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

	<u>2003</u>	<u>2002</u>
Balance at January 1	SR 66,118	SR 61,516
Additions during the year	7,606	8,325
Payments during the year	<u>(1,853)</u>	<u>(3,723)</u>
Balance of December 31	<u>SR 71,871</u>	<u>SR 66,118</u>

19. SHARE CAPITAL

The Company's share capital of SR 800,000,000 at December 31, 2003 (2002 - SR 628,571,400) consists of 16,000,000 (2002 - 12,571,428 shares) fully paid and issued shares of SR 50 each.

The shareholders of the Company, in their extra-ordinary general assembly meeting held on July 5, 2003, resolved to increase the Company's share capital by issuing 3 bonus shares for every 11 shares outstanding at that date. As a result, the share capital increased to SR 800 million and the number of shares to 16 million shares. Such increase in share capital was affected by a transfer of SR 171.4 million from share premium reserve account. The legal formalities for such increase in share capital are in process.

20. SHARE PREMIUM RESERVE

Share premium reserve at December 31, 2003 and 2002 represents the difference between the par value and the fair value of the shares issued in prior years, less transfers to share capital (see Note 19). This reserve is not currently available for distribution to the shareholders.

21. STATUTORY RESERVE

In accordance with its Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required each year to transfer 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.

22. 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.

23. SELLING AND MARKETING EXPENSES

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

	<u>2003</u>	<u>2002</u>
Staff cost	SR 146,546	SR 136,370
Advertising	84,358	85,555
Depreciation	42,804	46,091
Utilities	29,877	29,306
Rent (see Note 30)	23,748	24,589
Repairs, maintenance and consumables	7,382	6,475
Fuel and oil	4,950	8,464
Travel	2,616	2,880
Insurance	1,756	1,595
Telecommunication	1,273	1,823
Bad debts	-	9,697
Other	<u>30,968</u>	<u>11,678</u>
Total	<u>SR 376,278</u>	<u>SR 364,523</u>

24. GENERAL AND ADMINISTRATIVE EXPENSES

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

	<u>2003</u>	<u>2002</u>
Staff cost	SR 110,103	SR 105,661
Professional fees	10,753	20,226
Amortization of deferred charges	10,470	16,153
Depreciation	9,464	11,454
Utilities, telephone and communication	7,087	7,296
Travel	5,347	3,991
Training	3,351	6,644
Computer-related	3,091	2,253
Repairs and maintenance	2,643	2,177
Insurance	1,899	2,357
Rent	1,602	2,025
Other	<u>30,536</u>	<u>33,758</u>
Total	<u>SR 196,346</u>	<u>SR 213,995</u>

Entitlements paid to the Company's Managing Director in the form of monthly salaries and housing and transportation allowance amounted to SR 1,590,000 for the year ended December 31, 2003 (2002 - SR 1,590,000). His annual bonus, which represents 1% of the Company's net income, amounted to SR 3,010,567 for the year ended December 31, 2003 (2002 - SR 2,075,617). His accrued end of service benefits amounted to SR 125,000 for the year ended December 31, 2003 (2002 - SR 125,000). Such expenses are included in staff cost above. In addition, the Company provides the Managing Director with a private driver, medical insurance and life insurance under Cooperative Takaful Program.

25. INVESTMENTS INCOME

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

	<u>2003</u>	<u>2002</u>
Share of profit from associated companies - net	SR 144,059	SR 138,914
Gain on disposal of investments	30,926	3,629
Provision for impairment of goodwill	-	(18,000)
Loss on investment in ACI, previously recorded as unrealized loss under equity	-	(8,910)
Provision for permanent decline in the value of investments	<u>-</u>	<u>(21,367)</u>
Investments income - net	<u>SR 174,985</u>	<u>SR 94,266</u>

26. DIRECTORS' REMUNERATIONS

The remunerations due to the Board of Directors for the year ended December 31, 2003 amounted to SR 2.2 million (2002 - SR 2.3 million). Attendance allowances amounted to SR 0.4 million for 2003 (2002 - SR 0.3 million) for attending Board meetings held during the year.

27. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2003 amounted to SR 18.82 (2002 - SR 12.97 as restated for the increase in capital and shares).

28. COMMITMENTS AND CONTINGENCIES

The Group had outstanding bank guarantees and letters of credit amounting to SR 98.8 million at December 31, 2003 (2002 - SR 36.4 million), which were issued in the normal course of business. Also see Note 16 with respect to zakat contingencies.

At December 31, 2003, USC had commitments to purchase approximately 747,600 tons (2002 - 995,000 tons) of raw sugar at prices which will approximate market prices prevailing on shipment dates, with deliveries spread between January 2004 and June 2005. Also, at December 31, 2003, USC had commitments to sell in 2004 refined sugar of approximately 181,000 tons (2002 - 150,000 tons to sell in 2003) at prices which would approximate the prevailing market prices at the contract date.

29. SEGMENT REPORTING

The Group's consolidated assets, liabilities, sales and net income as of December 31 and for the years then ended by segment are as follows (000's):

	<u>Manufacturing/ wholesale</u>	<u>Retail</u>	<u>Other</u>	<u>Total</u>
<u>2003</u>				
Assets	SR 1,669,441	SR 1,517,340	SR 751,695	SR 3,938,476
Liabilities	861,058	852,413	4,668	1,718,139
Sales - net	2,254,294	1,864,745	8,762	4,127,801
Net income	173,288	44,192	83,601	301,081
<u>2002</u>				
Assets	1,496,811	1,332,979	641,844	3,471,634
Liabilities	670,337	689,922	9,648	1,369,907
Sales - net	1,924,078	1,717,180	-	3,641,258
Net income	149,069	32,854	25,639	207,562

The Group's business is principally conducted in the following geographical areas as of December 31 and for the years then ended (000's):

	<u>Saudi Arabia</u>	<u>Egypt</u>	<u>Other countries</u>	<u>Total</u>
<u>2003</u>				
Assets	SR 3,557,443	SR 290,916	SR 90,117	SR 3,938,476
Liabilities	1,580,958	123,105	14,076	1,718,139
Sales - net	3,596,850	388,637	142,314	4,127,801
Net income (loss)	293,587	(178)	7,672	301,081
<u>2002</u>				
Assets	3,092,365	312,760	66,509	3,471,634
Liabilities	1,251,902	82,013	35,992	1,369,907
Sales - net	3,218,952	348,945	73,361	3,641,258
Net income	214,359	4,949	(11,746)	207,562

30. 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, 2003 amounted to SR 34.1 million (2002 - SR 33.9 million).

Operating leases with terms expiring within one year and in excess of one year as of December 31, 2003 are as follows (000's):

Within one year	SR	3,300
Between two and five years		11,863
Greater than five years		<u>704,220</u>
Total	<u>SR</u>	<u>719,383</u>

31. APPROPRIATION OF NET INCOME

In their general assembly annual meeting, which was held on Muharam 9, 1424H (March 9, 2003), the shareholders approved the appropriation of the 2002 net income as follows:

- Payment of SR 2.3 million as Board of Directors' remunerations.
- Declared dividends amounting to SR 150.8 million to the shareholders (SR 12 per share).

Also, in its meeting held on Jumad-ul-Awal 5, 1424H (July 5, 2003), the Board of Directors approved the payment of an interim dividend amounting to SR 153.1 million to the shareholders (representing SR 7 per share for the 16 million shares that were outstanding as of July 5, 2003, and SR 12 per share for the bonus shares issued during 2003 amounting to 3,428,572 shares - see Note 19). This decision is expected to be ratified by the shareholders in their general assembly annual meeting scheduled on Safar 3, 1425H (March 24, 2004).

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

Interest rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial position and cash flows. The Group has no significant interest-bearing assets at December 31, 2003 and 2002. Interest-bearing liabilities at December 31, 2003 amount to SR 766.9 million (2002 - SR 341.4 million).

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

Liquidity risk is managed by monitoring on regular basis that sufficient funds are available to meet the Group's future commitments. Also see Note 12.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi riyals, United States dollars and Euro. The management believes that the currency risk for inventory purchases is adequately managed primarily through entering into 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, 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.

33. SUBSEQUENT EVENTS

These consolidated financial statements were approved by the Board of Directors on February 25, 2004.

In connection with the decision by SOCPA to supplement Saudi Accounting Standards with International Financial Reporting Standards ("IFRS") effective in 2003, the Group changed its accounting policy relating to the recognition of dividends. Consequently, proposed dividends of SR 112 million (SR 7 per share) for the 2nd half of 2003, declared after year-end, have been disclosed within the notes to the consolidated financial statements, as opposed to being reported as liabilities as was the case prior to 2003. Following is a summary of the movements in the retained earnings balance for the year ended December 31, 2003 after taking into consideration the proposed dividends (000's):

Balance as of January 1, 2003	SR	190,269
Net income for the year		301,081
Transfer to statutory reserve		(30,108)
Dividends paid for the first half of 2003		(153,142)
Dividends proposed for the 2 nd half of 2003		(112,000)
Directors' remunerations		<u>(2,200)</u>
Balance as of December 31, 2003	SR	<u>193,900</u>