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**SAVOLA GROUP COMPANY**  
**(Saudi Joint Stock Company)**

**Consolidated Financial Statements for the  
Years ended December 31, 2004 and 2003  
and Independent Auditors' Report**

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**P.O. Box 16415  
Jeddah 21464  
Saudi Arabia**

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**P.O. Box 32446  
Jeddah 21428  
Saudi Arabia**

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**INDEPENDENT AUDITORS' REPORT**

April 9, 2005

To the Shareholders of Savola Group Company:

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

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

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

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

**AL JURAID & COMPANY**

**ABDUL MAJEED H. AJOOZAH**

By: \_\_\_\_\_  
Sami B. Al Sarraj  
License Number 165

By: \_\_\_\_\_  
Abdul Majeed H. Ajoozah  
License Number 58

**SAVOLA GROUP COMPANY**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2004 AND 2003**  
**(In thousands)**

	<u>Notes</u>	<u>2004</u>	<u>2003</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	3	SR 263,786	SR 166,372
Available-for-sale investments	4	137,699	-
Accounts receivable - net	5, 6	618,088	294,190
Inventories - net	7	972,725	537,806
Prepayments and other assets	8	<u>148,275</u>	<u>112,702</u>
Total current assets	13	2,140,573	1,111,070
INVESTMENTS - Net	9	664,902	678,141
GOODWILL - Net	10	139,902	109,141
OTHER NON-CURRENT ASSETS - Net	11	61,576	22,399
FIXED ASSETS - Net	12, 14	<u>3,187,985</u>	<u>2,026,529</u>
<b>TOTAL</b>		<b><u>SR 6,194,938</u></b>	<b><u>SR 3,947,280</u></b>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
<b><u>EQUITY</u></b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank borrowings	13	SR 992,163	SR 738,695
Current portion of long-term debt	14	164,857	72,558
Accounts payable	6, 15	748,721	416,706
Accrued expenses and other liabilities	16, 18	<u>298,356</u>	<u>176,794</u>
Total current liabilities	13	2,204,097	1,404,753
LONG-TERM PAYABLES	17	121,938	109,308
LONG-TERM DEBT	14	1,059,274	141,054
EMPLOYEES' TERMINATION BENEFITS	19	<u>106,376</u>	<u>71,871</u>
Total liabilities		<u>3,491,685</u>	<u>1,726,986</u>
MINORITY INTERESTS	6	<u>632,398</u>	<u>370,452</u>
COMMITMENTS AND CONTINGENCIES	18, 30		
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	20	1,000,000	800,000
Share premium reserve	21	9,000	209,000
Statutory reserve	22	394,631	344,394
General reserve	23	254,000	254,000
Unrealized gains on investments	4	20,858	-
Foreign currency translation adjustments		(61,371)	(63,452)
Retained earnings		<u>453,737</u>	<u>305,900</u>
Total shareholders' equity		<u>2,070,855</u>	<u>1,849,842</u>
<b>TOTAL</b>		<b><u>SR 6,194,938</u></b>	<b><u>SR 3,947,280</u></b>

The accompanying notes 1 to 35 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, 2004 AND 2003**  
**(In thousands)**

	<u>Notes</u>	<u>2004</u>	<u>2003</u>
REVENUES - Net	6	SR 5,601,979	SR 4,127,801
COST OF SALES		<u>(4,683,822)</u>	<u>(3,324,614)</u>
GROSS PROFIT		918,157	803,187
EXPENSES:			
Selling and marketing	24	(453,865)	(376,278)
General and administrative	6, 25	<u>(241,724)</u>	<u>(211,271)</u>
OPERATING INCOME		222,568	215,638
OTHER INCOME (EXPENSES):			
Investments income - net	26	362,773	174,985
Financing cost - net	13, 14	(55,308)	(30,379)
Other income - net	27	<u>62,558</u>	<u>19,591</u>
INCOME BEFORE ZAKAT AND FOREIGN INCOME TAX AND MINORITY INTERESTS		592,591	379,835
ZAKAT AND FOREIGN INCOME TAX	18	<u>(19,174)</u>	<u>(7,005)</u>
INCOME BEFORE MINORITY INTERESTS		573,417	372,830
SHARE OF MINORITY INTERESTS IN THE NET INCOME OF CONSOLIDATED SUBSIDIARIES		<u>(71,043)</u>	<u>(71,749)</u>
NET INCOME		<u>SR 502,374</u>	<u>SR 301,081</u>
EARNINGS PER SHARE (in Saudi riyals)	29	<u>SR 25.12</u>	<u>SR 15.05</u>

The accompanying notes 1 to 35 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, 2004 AND 2003**  
**(In thousands)**

	<u>Notes</u>	<u>2004</u>	<u>2003</u>
<b>SHARE CAPITAL:</b>			
Balance at January 1		SR 800,000	SR 628,571
Bonus shares issued during the year	20	<u>200,000</u>	<u>171,429</u>
Balance at December 31		<u>1,000,000</u>	<u>800,000</u>
<b>SHARE PREMIUM:</b>			
Balance at January 1		209,000	380,429
Bonus shares issued during the year	20	<u>(200,000)</u>	<u>(171,429)</u>
Balance at December 31		<u>9,000</u>	<u>209,000</u>
<b>STATUTORY RESERVE:</b>			
Balance at January 1		344,394	314,286
Transfer from retained earnings	22	<u>50,237</u>	<u>30,108</u>
Balance at December 31		<u>394,631</u>	<u>344,394</u>
<b>GENERAL RESERVE:</b>			
Balance at January 1 and December 31		<u>254,000</u>	<u>254,000</u>
<b>UNREALIZED GAINS ON INVESTMENTS:</b>			
Balance at January 1		-	-
Unrealized gains during the year	4	<u>20,858</u>	<u>-</u>
Balance at December 31		<u>20,858</u>	<u>-</u>
<b>FOREIGN CURRENCY TRANSLATION</b>			
<b>ADJUSTMENTS:</b>			
Balance at January 1		(63,452)	(49,866)
Adjustments during the year		<u>2,081</u>	<u>(13,586)</u>
Balance at December 31		<u>(61,371)</u>	<u>(63,452)</u>
<b>RETAINED EARNINGS:</b>			
Balance at January 1		305,900	190,269
Net income		502,374	301,081
Transfer to statutory reserve	22	(50,237)	(30,108)
Interim dividends	33	(190,000)	(153,142)
Final dividends for 2003	33	(112,000)	-
Directors' remunerations	28	(2,300)	(2,200)
Balance at December 31		<u>453,737</u>	<u>305,900</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>SR 2,070,855</u>	<u>SR 1,849,842</u>

The accompanying notes 1 to 35 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, 2004 AND 2003**  
**(In thousands)**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	SR 502,374	SR 301,081
Adjustments to reconcile net income to net cash provided by operating activities:		
Investments income - net	(362,773)	(174,985)
Amortization	21,367	25,395
Depreciation	160,770	131,345
Loss (gain) on sale of fixed assets	463	(1,014)
Share of minority interests in the net income of consolidated subsidiaries	71,043	71,749
Changes in operating assets and liabilities:		
Accounts receivable	(323,898)	(13,952)
Inventories	(434,919)	(121,867)
Prepayments and other current assets	(35,573)	(20,598)
Accounts payable	378,391	24,752
Accrued expenses and other current liabilities	119,262	32,593
Employees' termination benefits	<u>34,505</u>	<u>5,753</u>
Net cash provided by operating activities	<u>131,012</u>	<u>260,252</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to available-for-sale investments	(518,307)	(141,471)
Proceeds from sale of available-for-sale investments	519,640	172,287
Dividends received from an associated company	120,990	112,924
Proceeds from sale of investments - net	102,876	394
Additions to investments	(30,404)	(19,584)
Additions/adjustments to goodwill - net	(24,720)	(5,586)
Additions to other non-current assets	(46,504)	(19,089)
Proceeds from sale of fixed assets	17,608	-
Net beginning balance of fixed assets of acquired subsidiaries	(278,553)	-
Additions to fixed assets	<u>(1,061,744)</u>	<u>(307,358)</u>
Net cash used by investing activities	<u>(1,199,118)</u>	<u>(207,483)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in short-term bank borrowings	253,468	454,560
Repayment of long-term debt	(72,558)	(81,765)
Additions to long-term debt	1,083,077	3,480
Change in minority interests	190,903	(85,335)
Dividends paid	<u>(289,370)</u>	<u>(284,012)</u>
Net cash provided by financing activities	<u>1,165,520</u>	<u>6,928</u>

(Continued)

**SAVOLA GROUP COMPANY**  
**(A Saudi Joint Stock Company)**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**  
**(In thousands)**

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	<u>2004</u>	<u>2003</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	SR 97,414	SR 59,697
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>166,372</u>	<u>106,675</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>SR 263,786</u>	<u>SR 166,372</u>

**SUPPLEMENTAL SCHEDULE OF NON-CASH  
INFORMATION:**

Directors' remunerations	SR 2,300	SR 2,200
Unrealized gains on investments	20,858	-
Foreign currency translation adjustments	(2,081)	13,586
Offset of investment under liquidation against balance payable to investee	46,376	-
Investment in subsidiary not consolidated for the year	-	46,376
Reversal of excess provision for goodwill	18,000	-

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

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**SAVOLA GROUP COMPANY**  
**(A Saudi Joint Stock Company)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003**

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**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>2004</u>	<u>2003</u>
Savola Packaging Systems Limited ("SPS")	Saudi Arabia	100	100
Utur Packaging Materials Company Limited	Saudi Arabia	100	100
Royah Company for the Development of Information Systems & Computer Services	Saudi Arabia	100	100
Savola Trading International Limited ("STI")	Virgin Islands	100	100
Tayseer FZCO ("Tayseer")	UAE	100	100
Azizia Panda Trading Company ("APTC")	Saudi Arabia	100	100
Al Azizia - Panda United Company (formerly Al Azizia - Panda Al Qassim Company)	Saudi Arabia	100	100
Savola Edible Oils Company Limited ("SEO")	Saudi Arabia	90.63	90.43
Herfy Food Services Company Ltd. ("Herfy")	Saudi Arabia	70	70
Savola Industrial Investments Co. ("SIIC")	Saudi Arabia	63.5	63.5
Modern Marafiq for Real Estate Development Co. Ltd. ("MMRDC")	Saudi Arabia	100	-



SEO also has the following consolidated subsidiaries:

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

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

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

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

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

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

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting, as modified by the revaluation of available-for-sale investments at fair value through equity, and in

compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants (SOCPA). Significant accounting policies are summarized as follows:

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

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

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

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

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

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

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

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

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

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

If the cost of the acquired investment is less than 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 life of leased land or 20 years, whichever is lower.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3. CASH AND CASH EQUIVALENTS

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

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

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

#### 4. AVAILABLE-FOR-SALE INVESTMENTS

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

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

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

#### 5. ACCOUNTS RECEIVABLE

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

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

#### 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):

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

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

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

The Company also arranges for credit facilities to its affiliated entities through local commercial banks.

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

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

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

## 7. INVENTORIES

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

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

## 8. PREPAYMENTS AND OTHER CURRENT ASSETS

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

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

## 9. INVESTMENTS

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

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

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

	<u>2004</u>	<u>2003</u>
Balance at January 1	SR 678,141	SR 468,406
Share of profit from an associated company (Note 26)	141,835	140,653
Additions to investments	30,404	14,186
Investments disposed off, net of related provisions	(3,506)	(500)
Investment consolidated	(10,780)	-
Dividends received from an associated company	(120,990)	-
Investment in SBC offset against balance payable	(44,730)	-
Investment in SBC, net of profit share	-	44,730
Investment in SSFC, net of profit share	-	8,804
Additions to provisions against investments	<u>(5,472)</u>	<u>1,862</u>
Balance at December 31	<u>SR 664,902</u>	<u>SR 678,141</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>2004</u>	<u>2003</u>
Al Marai Company Ltd. - Saudi Arabia	40.33	SR 611,166	SR 590,321
Equity investments in Iran	Various	9,905	-
Shandong Xiwang Savola Oils and Fats Company Ltd. ("Shandong") - China	25	5,472	-
Arabian Saline Water Technology Co. Ltd. (Behar) - Saudi Arabia	30	209	209
Saudi Arabian Glass Company ("SAGCO") - Saudi Arabia	-	-	71,171
Wazir Ali Industries Ltd. - Pakistan	-	-	2,446
		<u>626,752</u>	<u>664,147</u>
Less provision for decline in the value of investments in associated companies		<u>(5,681)</u>	<u>(73,826)</u>
Investments in associated companies - net		<u>SR 621,071</u>	<u>SR 590,321</u>

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

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

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

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

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

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

	<u>2004</u>	<u>2003</u>
Savola Snack Foods Company Ltd. ("SSFC")	SR 8,804	SR 8,804
Savola Bahrain Company ("SBC")	-	48,236
Savola Morocco Company ("SMC")	-	10,780
Total	<u>SR 8,804</u>	<u>SR 67,820</u>

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

	<u>2004</u>	<u>2003</u>
Net income	SR -	SR 2,739
Total assets	11,321	71,459
Total liabilities	2,517	3,639

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

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

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

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

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

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

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

## 10. GOODWILL

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

	<u>2004</u>	<u>2003</u>
<u>Cost</u>		
Balance at January 1	SR 261,321	SR 276,884
Additions	14,605	1,886
Provisions and adjustments	<u>27,155</u>	<u>(17,449)</u>
Balance at December 31	<u>303,081</u>	<u>261,321</u>
<u>Accumulated amortization</u>		
Balance at January 1	(106,855)	(91,930)
Charge for the year	<u>(14,040)</u>	<u>(14,925)</u>
Balance at December 31	<u>(120,895)</u>	<u>(106,855)</u>
Offset against minority interests	<u>(42,284)</u>	<u>(45,325)</u>
Goodwill - net	<u>SR 139,902</u>	<u>SR 109,141</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 SSFL. On consolidation, the gross amount of SSFL's goodwill has been included in the consolidated accounts of the Group. However, for presentation purposes, it is being netted off against minority interests to reflect the Group's share of goodwill.

## 11. OTHER NON-CURRENT ASSETS

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

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

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

## 12. FIXED ASSETS

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

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

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

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

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

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

### 13. SHORT-TERM BANK BORROWINGS

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

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

### 14. LONG-TERM DEBT

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

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

### SIDF loans

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

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

### Commercial bank loans of the Company

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

### Commercial bank loans of SEO

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

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

Years ending December 31,	
2005	SR 164,857
2006	478,096
2007	107,661
2008	190,593
2009	178,468
2010	<u>104,456</u>
Total	<u>SR 1,224,131</u>

## 15. ACCOUNTS PAYABLE

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

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

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

## 16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

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

## 17. LONG-TERM PAYABLES

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

## 18. ZAKAT AND FOREIGN INCOME TAX

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

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

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

### **Provision for Zakat**

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

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

### **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 final zakat return.

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

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

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

During 2003, a former Group company, namely Saudi Paper Cups and Containers Co. Ltd., received final zakat assessments for the years 1995 to 2001 in which the DZIT claimed additional zakat liability of SR 2.2 million from the Company, being the former majority shareholder. Management of the Group company has given a bank guarantee to the DZIT for such amount and has appealed such assessments. Accordingly, no liability for such assessment has been recorded in the accompanying consolidated financial statements.



Also, during 2004 and 2003, various Group companies received assessments from the DZIT concerning their zakat declarations for the open years, in which the DZIT assessed additional zakat liabilities of approximately SR 16.1 million. The companies objected to such assessments and filed their cases with the Appeal Committee. Management believes that no additional zakat liability will ultimately be payable and, accordingly, no provision has been recorded in the accompanying consolidated financial statements for such amount.

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

## 19. EMPLOYEES' TERMINATION BENEFITS

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

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

## 20. SHARE CAPITAL

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

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

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

## 21. SHARE PREMIUM RESERVE

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

## 22. STATUTORY RESERVE

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

## 23. GENERAL RESERVE

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

## 24. SELLING AND MARKETING EXPENSES

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

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

## 25. GENERAL AND ADMINISTRATIVE EXPENSES

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

	<u>2004</u>	<u>2003</u>
Staff cost	SR 133,528	SR 110,103
Amortization of goodwill	14,040	14,925
Depreciation	12,511	9,464
Professional fees	10,212	10,753
Travel	7,666	5,347
Utilities, telephone and communication	7,506	7,087
Amortization of deferred charges	7,327	10,470
Training	4,736	3,351
Computer-related	3,477	3,091
Insurance	3,095	1,899
Repairs and maintenance	2,682	2,643
Rent	1,797	1,602
Other	<u>33,147</u>	<u>30,536</u>
Total	<u>SR 241,724</u>	<u>SR 211,271</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, 2004 (2003 - SR 1,590,000). His annual bonus, which represents 1% of the Company's net income, amounted to SR 5,023,740 for the year ended December 31, 2004 (2003 - SR 3,010,567).

## 26. INVESTMENTS INCOME

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

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

## 27. OTHER INCOME

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

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

## 28. DIRECTORS' REMUNERATIONS

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

## 29. EARNINGS PER SHARE

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

## 30. COMMITMENTS AND CONTINGENCIES

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

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

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

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

### 31. SEGMENT REPORTING

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

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

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

<u>2004</u>	<u>Saudi Arabia</u>	<u>Egypt</u>	<u>Iran</u>	<u>Other countries</u>	<u>Total</u>
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
Sales - net	4,146,350	445,340	667,624	342,665	5,601,979
Net income (loss)	495,962	2,506	17,477	(13,571)	502,374
<u>2003</u>					
Fixed assets - net	1,944,964	57,404	-	24,161	2,026,529
Other non-current assets - net	718,955	-	-	90,726	809,681
Sales - net	3,596,850	388,637	-	142,314	4,127,801
Net income (loss)	293,587	10,635	-	(3,141)	301,081

### 32. LEASES

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

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

Within one year	SR	-
Between two and five years		8.61
More than five years		<u>682.53</u>
Total	<u>SR</u>	<u>691.14</u>

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

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

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

### 33. APPROPRIATION OF NET INCOME

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

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

Also, in their meetings held during 2004, the Board of Directors approved the payments of interim dividends to the shareholders amounting to SR 190 million (representing SR 9.5 per share for the 20 million shares that were outstanding as of those dates - see Note 20). These decisions are expected to be ratified by the shareholders in their general assembly annual meeting scheduled on May 4, 2005.

### 34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

**Fair value and cash flow interest rate risks** are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Group's financial 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 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 riyals, United States dollars, Euro, Iranian riyals, Egyptian pounds and Kazakh tenge. The management believes that the currency risk for inventory purchases is adequately managed primarily through futures contracts. Other transactions in foreign currencies are not material.

**Fair value** is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the Group's consolidated financial statements are prepared under the historical cost method, except for the consolidation of a foreign subsidiary at fair value, adjusted by the negative goodwill, differences can arise between the book values 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 February 9, 2005, resolved to increase the Company's share capital by issuing one bonus share for every four shares outstanding as of that date and approved the payment of final dividends amounting to SR 75 million to the shareholders (representing SR 3 per share for the 25 million shares including the new 5 million bonus shares to be issued). These decisions have been ratified by the shareholders in their extraordinary assembly meeting held on March 19, 2005.

These consolidated financial statements were approved by the Board of Directors on April 9, 2005.

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