SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2009
with
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

The Shareholders
Savola Group Company
Jeddah, Saudi Arabia

We have audited the accompanying consolidated financial statements of Savola Group Company and its subsidiaries ("the Group") which comprise the consolidated balance sheet as at December 31, 2009 and the consolidated statements of income, changes in equity and cash flows for the year then ended and the attached notes 1 through 31 which form an integral part of the consolidated financial statements.

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 123 of the Regulations for Companies and the Company's Articles of Association. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

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

1) present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2009, and the results of its consolidated operations and cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Al Sadhan

Tareq Abdulrahman Al Sadhan
License No. 352

Jeddah, February 22, 2010G
Corresponding to Rabi-ul-Awwal 08, 1431H

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET
As at December 31, 2009

	Note	2009 (SR 000)	2008 (SR 000)
ASSETS			
Current assets:			
Cash and cash equivalents	5	1,091,044	604,884
Trade receivables	6	1,417,252	919,791
Investments	9(a)	--	147,853
Inventories	7	2,296,601	2,039,358
Prepayments and other current assets	8	828,610	1,017,262
Total current assets		5,633,507	4,729,148
Non-current assets:			
Investments	9(a)	5,056,387	4,771,371
Intangible assets	10	1,029,869	794,664
Property, plant and equipment	11	5,536,761	4,250,663
Total non-current assets		11,623,017	9,816,698
Total assets		17,256,524	14,545,846
LIABILITIES AND EQUITY			
Current liabilities:			
Short-term debts	12	2,227,181	3,293,565
Current portion of long-term debts	16	795,089	139,641
Trade payables		1,830,283	1,216,246
Accrued expenses and other current liabilities	13	1,460,879	1,323,834
Total current liabilities		6,313,432	5,973,286
Non-current liabilities:			
Deferred gain	14	93,249	34,014
Long-term payables	15	61,031	74,033
Long-term debts	16	1,996,202	1,117,136
Employees' termination benefits		264,699	210,697
Total non-current liabilities		2,415,181	1,435,880
Total liabilities		8,728,613	7,409,166
EQUITY			
Equity attributable to the Company's shareholders:			
Share capital	17	5,000,000	5,000,000
Statutory reserve	18	868,102	772,946
General reserve		4,000	4,000
Unrealized (loss) on investments		(21,601)	(127,253)
Foreign currency translation account		(193,851)	(160,927)
Retained earnings		1,303,978	900,399
Total shareholders' equity		6,960,628	6,389,165
Minority interests		1,567,283	747,515
Total equity		8,527,911	7,136,680
Total liabilities and equity		17,256,524	14,545,846

The accompanying notes 1 through 31 form
an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2009

	Note	2009 (SR 000)	2008 (SR 000)
Revenues – net		17,917,202	13,821,377
Cost of revenues		(14,809,887)	(12,007,054)
Gross profit		3,107,315	1,814,323
Share of profits (loss) of associates and jointly controlled entities and dividend income – net		352,799	335,174
Other income – net	19	79,877	110,526
		3,539,991	2,260,023
EXPENSES:			
Selling and marketing	20	(1,533,574)	(1,123,033)
General and administrative	21	(628,783)	(465,491)
Total expenses		(2,162,357)	(1,588,524)
Income from operations		1,377,634	671,499
Gains on disposal of investments	9(e)	318,116	147,980
Impairment of assets	22	(221,596)	(442,406)
Financial charges – net	23	(227,337)	(153,658)
Income before Zakat and income-tax and minority interests		1,246,817	223,415
Zakat and income-tax	24	(63,323)	(53,387)
Net income before minority interests		1,183,494	170,028
Share of minority interests in the net (income) loss of consolidated subsidiaries		(231,929)	32,330
Net income		951,565	202,358
Earnings per share – Income from operations	25	2.76	1.34
– Net income	25	1.90	0.40

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an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2009

	2009 (SR 000)	2008 (SR 000)
Cash flows from operating activities:		
Net income	951,565	202,358
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation, amortisation and impairment	696,454	809,237
(Gain) on sale of property, plant and equipment	(7,191)	(2,810)
(Gain) on disposal of investments	(318,116)	(147,980)
Financial charges – net	227,337	153,658
Share of minority interests in net income (loss) of consolidated subsidiaries	231,929	(32,330)
Changes in operating assets and liabilities:		
Trade receivables	82,086	(178,732)
Inventories	232,215	(657,776)
Prepayments and other current assets	32,633	(373,947)
Trade payables	335,365	262,104
Accrued expenses and other current liabilities	(148,438)	404,658
Employees' termination benefits	25,827	33,236
Total adjustments	1,390,101	269,318
Net cash provided by operating activities	2,341,666	471,676
Cash flows from investing activities:		
Additions to investments	(400,655)	(2,207,749)
Proceeds from sale of investments	242,350	1,336,352
Net change in other investments	(133,611)	(35,974)
Cash effect of consolidation of a subsidiary	162,750	--
Net change in intangible assets	(426,524)	(506,924)
Addition to property, plant and equipment	(1,264,536)	(1,009,902)
Proceeds from sale of property, plant and equipment	319,852	72,734
Net cash (used in) investing activities	(1,500,374)	(2,351,463)
Cash flows from financing activities:		
Net change in short-term debts	(1,571,768)	1,979,508
Net change in long-term debts	1,516,776	656,927
Net changes in minority interests	440,199	162,131
Financial charges –net	(227,337)	(153,658)
Net change in restricted deposits against financing	(88,802)	3,347
Dividends paid	(513,002)	(494,770)
Net cash (used in) provided by financing activities	(443,934)	2,153,485
Net change in cash and cash equivalents	397,358	273,698
Cash and cash equivalents at beginning of the year	603,827	330,129
Cash and cash equivalents at end of the year (Note 5)	1,001,185	603,827

The accompanying notes 1 through 31 form
an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended December 31, 2009

	2009 (SR 000)	2008 (SR 000)
Non-cash items:		
Unrealized gain (loss) on available for sale investments	105,652	(578,182)
Foreign currency translation account	(32,924)	(68,845)
Directors' remuneration	2,200	2,200

The accompanying notes 1 through 31 form
an integral part of these consolidated financial statements.

SAVOLA GROUP COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2009

	Equity attributable to the Company's shareholders								
	Capital	Statutory reserve	General reserve	Foreign currency translation account	Unrealized gains / (loss) on investments	Retained earnings	Total shareholders' equity	Minority interests	**Total equity**
	(SR 000)	(SR 000)	(SR 000)	(SR 000)	(SR 000)	(SR 000)	(SR 000)	(SR 000)	(SR 000)
Balance at December 31, 2007	3,750,000	902,710	4,000	(92,082)	450,929	2,141,344	7,156,901	615,776	7,772,677
Bonus shares issued	1,250,000	(150,000)	--	--	--	(1,100,000)	--	--	--
Dividends	--	--	--	--	--	(500,000)	(500,000)	--	(500,000)
Net income	--	--	--	--	--	202,358	202,358	(32,330)	170,028
Transfer to reserve	--	20,236	--	--	--	(20,236)	--	--	--
Unrealized (loss) on investments adjustments	--	--	--	--	(578,182)	--	(578,182)	--	(578,182)
Foreign currency translation adjustments	--	--	--	(68,845)	--	--	(68,845)	--	(68,845)
Directors' remuneration	--	--	--	--	--	(2,200)	(2,200)	--	(2,200)
Gain on dilution of interest in consolidated subsidiaries (Note 4)	--	--	--	--	--	179,133	179,133	--	179,133
Other changes in minority interests	--	--	--	--	--	--	--	164,069	164,069
Balance at December 31, 2008	5,000,000	772,946	4,000	(160,927)	(127,253)	900,399	6,389,165	747,515	7,136,680
Dividends	--	--	--	--	--	(500,000)	(500,000)	--	(500,000)
Net income	--	--	--	--	--	951,565	951,565	--	951,565
Transfer to reserve	--	95,156	--	--	--	(95,156)	--	--	--
Unrealized gain on investments adjustments	--	--	--	--	105,652	--	105,652	--	105,652
Foreign currency translation adjustments	--	--	--	(32,924)	--	--	(32,924)	--	(32,924)
Directors' remuneration	--	--	--	--	--	(2,200)	(2,200)	--	(2,200)
Gain on dilution of interest in consolidated subsidiaries (Note 4)	--	--	--	--	--	49,370	49,370	--	49,370
Other changes in minority interests	--	--	--	--	--	--	--	819,768	819,768
Balance at December 31, 2009	5,000,000	868,102	4,000	(193,851)	(21,601)	1,303,978	6,960,628	1,567,283	8,527,911

The accompanying notes 1 through 31 form
an integral part of these consolidated financial statements.

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS

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

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

Saudi Business Center
Madinah Road,
Jeddah, Kingdom of Saudi Arabia

At December 31, the Company has investments in the following consolidated subsidiaries (collectively described as "the Group"), which are principally engaged in the manufacturing and marketing of vegetable oils, food products, retailing, packaging materials and fast food operations. In addition, the Group is also involved in real estate related investment activities:

Direct and indirect subsidiaries	Country of incorporation	Ownership interest (%) at December 31 2009	2008
Savola Packaging Systems Limited ("SPS")	Saudi Arabia	100	100
Utur Packaging Materials Company Limited	Saudi Arabia	100	100
Savola Trading International Limited	British Virgin Islands	100	100
Tayseer FZCO	UAE	100	100
Batool International Trading Company Limited	Saudi Arabia	100	100
Al-Azizia Panda United Company ("APU")	Saudi Arabia	74.4	80
Savola Foods Company ("SFC")	Saudi Arabia	90	85
Herfy Food Services Company Limited. ("Herfy")	Saudi Arabia	70	70
Savola Industrial Investments Co. ("SIIC")	Saudi Arabia	4.5	4.25
United Properties Development Company ("UPDC")	Saudi Arabia	100	100
Adeem Arabia Company Limited . ("AAC")	Saudi Arabia	80	100
Kamin Al Sharq for Industrial Investments ("Kamin")	Saudi Arabia	100	100
Arabian Sadouk for Telecommunications Company ("Sadouk")	Saudi Arabia	100	100
Al Maoun International Holding Company	Saudi Arabia	100	100
Al Matoun International for Real Estate Investment Holding Company	Saudi Arabia	80	100
AFIA Foods Arabia	Saudi Arabia	100	100
United Sugar Company, Egypt	Egypt	18.9	18.8
Giant Stores Trading Company	Saudi Arabia	8	8
United Company for Central Markets ("UCCM")	Lebanon	8	--

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS (continued)

Entities controlled through subsidiaries

	Country of incorporation	Subsidiary ownership interest (%) 2009	2008
SFC			
Afia International Company ("AIC")	Saudi Arabia	95.19	95.19
Savola Industrial Investment Company ("SIIC")	Saudi Arabia	95	95
Savola Foods Emerging Markets Company Limited ("SFEM")	British Virgin Islands	95.4	95.4
AIC			
Savola Behshahr Company (SBeC)	Iran	80	80
Malintra Holdings	Luxembourg	100	100
Savola Foods Limited ("SFL")	British Virgin Islands	100	100
Afia International Company – Jordan	Jordan	97.4	75
Inveskz Inc.	British Virgin Islands	90	90
Afia Trading International	British Virgin Islands	100	100
Savola Food International	British Virgin Islands	100	100
KUGU Gida Yatum Ve Ticaret A.S (KUGU)	Turkey	100	100
SFL			
Afia International Company, Egypt	Egypt	94.5	94.5
Inveskz Inc.			
Turkuaz Edible Oils	Kazakhstan	100	100
KUGU			
Yudum Gida Sanayi ve Ticaret A.S ("Yudum")	Turkey	100	100
SIIC			
United Sugar Company ("USC")	Saudi Arabia	64.8	64.8
USC			
United Sugar Company Egypt ("USCE")	Egypt	53.45	53.2
SFEM			
Savola Morocco Company	Morocco	100	100
Savola Edible Oils (Sudan) Limited	Sudan	100	100
AFIA International Company – Algeria	Algeria	100	100
SPS			
New Marina for Plastic Industries	Egypt	100	95
Al Sharq Company for Plastic Industries. Ltd ("Al Sharq")	Saudi Arabia	93	99
APU			
Giant Stores Trading Company("Giant")	Saudi Arabia	90	90
United Company for Central Markets ("UCCM")	Lebanon	14	--
Giant			
Lebanese Sweets and Bakeries ("LSB")	Saudi Arabia	95	95
United Company for Central Markets ("UCCM")	Lebanon	76	76

1. THE COMPANY, ITS SUBSIDIARIES AND NATURE OF BUSINESS (continued)

The Group subsidiary, Afia International Company acquired an additional 31% stake in SBeC, an existing jointly-controlled entity, from BIDC through a Share Purchase Agreement ("the SPA") during the second quarter of 2008 after which its ownership interest in SBeC has increased from 49% to 80%. Upon completion of all conditions for this additional acquisition; effective April 1, 2009 the group started to consolidate SBeC in its consolidated financial statements.

During 2009, the group formed Akwan, (a 62% effectively owned Special Purpose Vehicle "SPV") and Diyar Al Mashreq, (a 37.7% effectively owned jointly controlled entity) with other partners for the purpose of carrying out a real estate project. (See also Note 9 (b) (i))

On June 03, 2009, the Group entered into an agreement with A. K. Al Muhadib & Sons Company ("Al Muhadib"), to acquire certain real estate properties (leased to APU). The Group acquired these assets through its wholly owned subsidiary, Al Matoun International for Real Estate Investment Holding Company for SR 336 million and in exchange paid SR 97 million in cash and issued 20% stake in the acquiring company to Al Muhadib.

Effective September 16, 2009, the Group acquired through APU, the operations of Saudi Géant Company Limited ("Géant"), a limited liability company registered in Saudi Arabia. The net assets of such operations having a fair value of SR 245.54 million were acquired at a total consideration of SR 469.3 million. Accordingly, the acquisition resulted in recognition of goodwill in the Company's books of SR 223.76 million. See note 4(a)(ii) for details.

Effective October 24, 2009, APU acquired direct ownership interest of 14% in United Company for Central Markets (UCCM), Lebanon (an existing subsidiary of Gaint). The net assets of such operations having a fair value of SR 1.27 million were acquired at a total consideration of SR 2.49 million. Accordingly, the acquisition resulted in recognition of goodwill in the Company's books of SR 1.22 million.

On 22nd October 2009, the Group entered an agreement with Tate & Lyle Limited to buy their minority interest in United Sugar Company, Saudi Arabia (10.33%) and United Sugar Company Egypt (3.58%) for a net settlement of US$ 48.337 million.

In connection with Group's acquisition of Al-Sharq (through SPS) in 2005 and subsequent legal proceedings of a minority shareholder owning 1% in Al-Sharq, against SPS and existing shareholders; in view of the court's decision in favour of the minority shareholder, the Group sold 6% shareholding of SPS in Al- Sharq to the minority shareholder for SR 10.5 million at a loss of SR 344 thousand.

2. BASIS OF PREPARATION

(a) <u>Statement of compliance</u>

These consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

The consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2010.

2. BASIS OF PREPARATION (continued)

Certain comparative figures have been reclassified to conform to the current year's presentation.

(b) Basis of measurement

The consolidated financial statements are prepared under the historical cost basis (except for available-for-sale investments which are stated at their fair values), using the accrual basis of accounting and the going concern concept.

(c) Functional and presentation currency

These consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency. All financial information presented in SR has been rounded to the nearest thousand.

(d) Critical accounting judgements and estimates

The preparation of consolidated financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

(i) Valuation of investments in unquoted private equity funds

Investments in unquoted private equity funds classified under available for sale investments, are carried at cost in the absence of reliable fair value (see Note 9)

(ii) Impairment of available for sale investments

The Group exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes an other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Group also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

2. BASIS OF PREPARATION (continued)

(iii) Impairment of non-financial assets

The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets exist, it is based on discounted future cash flow calculations.

Impairment for goodwill is determined by assessing the recoverable amount of each cash-generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than its carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods for subsequent increases in its recoverable amount.

(iv) Provision for impairment of trade receivables

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

(v) Provision for slow moving inventory items

The Group makes a provision for slow moving inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries set forth in Note 1 above. Associates and Jointly Controlled Companies are accounted for using the equity method.

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these consolidated financial statements. Any unrealized gains and losses arising from intra-group transactions are also eliminated on consolidation.

(ii) Minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interest, if any, result in gains and losses for the Group that are recorded in the income statement if control is lost. Purchase of minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary

b) Foreign currency translation

The consolidated financial statements are reported into SR, which is the Group's functional and presentation currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions denominated in foreign currencies are translated to the functional currencies of the Group at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currencies of the Group at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the consolidated statement of income currently.

Assets and liabilities of foreign subsidiaries, associates and jointly controlled companies are translated into Saudi Arabian Riyals at the exchange rates in effect at the date of the consolidated balance sheet. The components of foreign subsidiaries, associates and jointly controlled companies' equity accounts, with the exception of retained earnings of subsidiaries, are translated at the exchange rates in effect at the dates of the related items originated. The elements of foreign subsidiaries' income statement are translated using the weighted-average exchange rate for the period. Adjustments resulting from the translation of foreign subsidiaries' financial statements into Saudi Arabian Riyals are reported as a separate component of equity (foreign currency translation account) attributable to shareholders of the Company in the consolidated financial statements.

Any goodwill arising on the acquisition of a foreign subsidiaries and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign subsidiaries and translated at the closing rate.

c) Trade receivables

Trade receivables are carried at original invoice amounts less provision made for doubtful accounts. A provision for doubtful accounts is established when there is a significant doubt that the Group will be able to collect all amounts due according to the original terms of agreement.

d) Inventories

Inventories are valued at the lower of cost (determined principally by using the weighted average method) and net realizable value. Cost of finished goods and work-in-process includes the cost of raw materials, direct labour and appropriate production overheads. Inventories in transit are valued at cost.

e) Investments

(i) Investments in associates and jointly-controlled companies

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Jointly controlled companies are those where the Group shares effective controls with other shareholders of the investee company.

The Group's investments in its associate and jointly controlled companies are accounted for using the equity method of accounting from the date that significant influence or joint-control commence until the date that such influence or joint-control ceases. Under the equity method, investments in associates and jointly controlled companies are carried in the balance sheet at cost (including goodwill paid on acquisition, net of any impairment losses), plus post-acquisition changes in the Group’s share of net assets of the investee company. Where there has been a change recognised directly in the equity of the associate or jointly controlled company, the Group recognises its share of such changes in its consolidated statement of changes in shareholders’ equity.

When the Group’s share of losses exceeds its interest in an associate or jointly-controlled company, the Group’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(ii) Available-for-sale investments

Investments which are not held for trading purposes and where the Group does not have significant influence or control, are classified as investments available for sale. These primarily include the Group’s investment of less than 20% in certain locally listed and unlisted companies

These investments are initially recorded at cost and then re-measured and stated in the consolidated balance sheet at their fair values. Fair value is determined by reference to the market value in the open market if an open market exists. In the absence of an open market and if a reliable estimate of the fair value cannot be established by other means the cost is considered to be the fair value for those investments. Any gain or loss arising from a change in their fair value is reported as a separate item under shareholders' equity until the investments are derecognized or impaired. On de-recognition, cumulative gains or losses previously recognized in shareholders' equity are included in the consolidated statement of income. On impairment, the difference between cost and fair value is included in the consolidated statement of income as Impairment of assets. Reversals of impairment loss in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Dividend income from such investments is recorded when declared.

Investments which management intends to dispose of within a period of one year are classified as current assets.

(iii) Other investments

These include Group's investment in Real estate projects which are under development. These are carried at cost.

f) Business combinations

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, and includes costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition.

The excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is classified as Goodwill.

g) Intangible assets

i) Goodwill

Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. Goodwill is tested annually for impairment and is carried at cost net of accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to these units.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 to their book values.

ii) Deferred costs

Deferred costs mainly 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 costs also include Saudi Industrial Development Fund (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.

h) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and impairment loss if any. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of individual item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

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

Finance costs on borrowings to finance the construction of the assets are capitalized during the period of time that is required to complete and prepare the asset for their intended use.

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

i) Provisions

Provisions are recognized when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be measured reliably.

j) Employees' termination benefits

Employees' termination benefits, calculated in accordance with labour regulations of the countries of incorporation of the Group member companies, are accrued and charged to interim consolidated statements of income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Revenue recognition

Revenues are recognized upon delivery or shipment of products or providing services to the customers, and are recorded net of trade discounts. Revenues also include: (a) rental income which is recognized over the lease terms, and (b) promotional and display income which is recognized as earned.

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

l) Expenses

Selling, marketing, general and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under generally accepted accounting principles. Selling and marketing expenses are those arising from the Group's efforts underlying the marketing, selling and distribution functions. All other expenses are classified as general and administrative expenses. Allocations of common expenses between cost of revenues and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

m) Derivative financial instruments - Hedge accounting

The company uses derivative financial instruments (commodity future contracts as well as OTC arrangements) to hedge its price risk of raw material in the Sugar business. Derivatives are measured at fair value, and changes in the fair value of a derivative hedging instrument are recognized in statement of income under cost of sales as an adjustment to the carrying amount of hedged item – the inventory.

n) Operating leases

Payments under operating leases are recognized in the statement of income on a straight-line basis over the lease terms.

o) Zakat and income tax

The Company and its Saudi Arabian subsidiaries are subject to Zakat and income-tax 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 are charged to consolidated statement of income currently.

Deferred tax liabilities and assets are recognized for temporary differences at current rates of taxation. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in the near future to allow all or part of the deferred tax asset to be utilized.

p) Dividends

Interim dividends are recorded as a liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the period in which they are approved the shareholders.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Cash and cash equivalents

Cash and cash equivalents for cash flows purposes comprise cash on hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less, which are available to the Group without any restrictions.

r) Offsetting

Financial assets and liabilities are offset and reported net in the consolidated balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Group intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

s) Segment Reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segmental reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

4. BUSINESS COMBINATIONS

a) The Group had following acquisitions during the year:

i) Savola Behshahr Company (SBeC), Iran

As explained in Note 1, the Group subsidiary, Afia International Company acquired an additional 31% stake in SBeC, an existing jointly-controlled entity, from BIDC through a Share Purchase Agreement ("the SPA") for a total consideration of SR 265 million. The Group's interest in SBeC has increased from 49% to 80% effective July 1, 2008. However, Afia and BIDC mutually agreed that until all conditions of the SPA were met, SBeC will continue to be treated as jointly controlled entity and managed by BIDC in line with the terms of the existing joint venture agreement dated March 5, 2004. Upon completion of all conditions of SPA relating to the additional acquisition; the group started to consolidate SBeC effective from April 1, 2009.

ii) Saudi Géant Company Limited

As explained in Note 1, effective September 16, 2009, the Group acquired through APU, the operations of Saudi Géant Company Limited ("Géant"), a limited liability company registered in Saudi Arabia. The consideration comprised of cash of SR 232 million and a deferred equity consideration of SR 237.3 million. APU paid the cash consideration on October 12, 2009 and the deferred equity component will be paid in the form of issue of 45,699 new shares (approximately) of APU with a par value of SR 1,000 per share. APU has recorded this amount in its balance sheet under shareholders' equity as 'Proposed increase in share capital; hence the group's shareholding is diluted by 5.6%. The proposed new shares will be issued at a premium of APU's shareholders have also agreed to convert APU into a closed joint stock company at the time of issuance of the aforementioned equity shares. The legal formalities for such process have been initiated as of the year end.

4. BUSINESS COMBINATIONS (continued)

The fair values of the assets and liabilities of the aforementioned companies as at the date of their acquisition are as follows:

	SBeC	Geant
Current assets	1,341,235	7,788
Non-current assets	699,891	294,245
Total assets	**2,041,126**	**302,033**
Current liabilities	(1,205,659)	(51,071)
Non-current liabilities	(33,938)	(5,423)
Total liabilities	**(1,239,597)**	**(56,494)**
Net assets	801,529	245,538
Add: Goodwill	--	223,764
Total purchase price	**801,529**	**469,302**

In line with the requirements of generally accepted accounting principles and group policies (See Note 3f); the Group carried out a valuation of SBeC identifiable net assets with the assistance of external experts. The carrying values of these assets have been adjusted for consolidation purposes with corresponding goodwill recognized on acquisition. Adjustment in the consolidated statement of income have also been made effective from April 1, 2009. The Group management has also appointed an independent firm to evaluate the appropriateness of such allocation and believes that this study will confirm management's current understanding and no material adjustment will be required in the fair values of net identifiable assets reflected in these consolidated financial statements.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Cash on hand	25,113	20,285
Cash in transit	3,398	2,014
Cash at bank in current accounts	972,674	581,528
Cash and cash equivalents for cash flow statement purposes	1,001,185	603,827
Restricted deposits	89,859	1,057
	1,091,044	604,884

Restricted deposits represent time deposits, which are blocked against bank facilities granted to overseas subsidiaries by commercial banks.

6. TRADE RECEIVABLES

Trade receivables at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Related parties (Note 27(a))	82,329	62,844
Other customers	1,417,821	905,866
Total	1,500,150	968,710
Provision for doubtful accounts	(82,898)	(48,919)
	1,417,252	919,791

7. INVENTORIES

Inventories at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Raw and packing materials	984,770	925,254
Work-in-process	92,547	88,513
Finished goods	1,063,912	914,580
Spare parts and consumables	196,247	150,937
Materials in-transit	70,087	19,981
Total	2,407,563	2,099,265
Provision for slow moving items	(110,962)	(59,907)
	2,296,601	2,039,358

8. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Non-trade receivables	174,134	84,098
Prepayments	159,317	124,007
Due from related parties (Note 27(a))	149,524	482,843
Supplier advances	101,276	88,254
Receivable from government authorities	65,918	92,821
Employee housing and other advances	56,929	35,498
Balance relating to commodity future contracts	49,000	30,085
Assets classified as held for sale	16,119	16,119
Rental income receivable	4,747	26,805
Deferred tax asset of foreign subsidiaries	3,029	--
Other	48,617	36,732
	828,610	1,017,262

Receivable from government authorities represent claims of foreign subsidiaries from various governments on account of value added tax, custom duties and advanced taxes.

9. INVESTMENTS

a) Investments at December 31 comprise of the following:

	2009 (SR 000)	2008 (SR 000)
Investments in associates and jointly controlled companies – net	3,373,922	3,205,042
Available for sale (AFS) investments	835,438	764,077
Other investments carried at cost	847,027	950,105
Total	5,056,387	4,919,224
Less: AFS investments held for short-term period classified under current assets	--	(147,853)
	5,056,387	4,771,371

b) Investments in associates and jointly controlled companies at December 31 comprise the following:

	Sector	Effective Ownership interest (%) 2009	Effective Ownership interest (%) 2008	2009 (SR 000)	2008 (SR 000)
Al Marai Company Ltd. - Saudi Arabia ("Al-Marai")	Food	26.5	28	1,842,089	1,447,336
Kinan International for Real Estate Development Company	Real Estate	30	30	546,499	536,599
Intaj Capital Limited – British Virgin Islands	Private Equity Fund	49	49	393,324	422,379
Savola Behshahr Company - Iran (“SBeC”)	Food	68.5	68.5	--	594,018
Al-Seara City Company For Real Estate Development	Real Estate	40	40	134,800	134,800
Diyar Al Mashreq (See note (i))				234,684	--
Alexandria Sugar Company (See note (ii))	Food	45.5	45.5	175,372	30,976
Knowledge Economic City Development Company (KECD)	Real Estate	17	17	13,200	13,200
Emerge Investment Ltd	Private Equity Fund	20	20	23,233	18,755
Kinan Arabia for Real Estate	Real Estate	20	20	400	10,000
Others	Various	--	--	10,321	6,075
Total				3,373,922	3,214,138
Less: Provision for permanent diminution in value of investments in associates				--	(9,096)
				3,373,922	3,205,042

9. INVESTMENTS (continued)

i) During the year, the Parent Company transferred its investments in a plot of land carried at cost (included as other investments in the comparative period) to a 62% owned SPV (Akwan). Akwan subsequently disposed of this land to a 37.7% jointly controlled entity (Diyar Al Mashreq) at fair value. This has resulted in the Group realising a net capital gain of SR 85.8 million from disposal of land to the partners in the jointly controlled entity.

The Group expects to receive shares in Diyar Al Mashreq through Akwan as consideration for disposal of this land (to Diyar Al Mashreq) with a face value equivalent to the fair value of the land transferred amounting to SR 231.5 million. Therefore, this amount is reflected as part of investment in jointly controlled entity in these consolidated financial statements.

ii) Alexandria Sugar Company (ASC) is a jointly controlled project in which Savola Foods Company is participating with other shareholders to develop a Beet sugar refinery in Egypt. The company is currently under pre-operating phase and its business conduct is governed by the shareholders agreement. Under the terms of this agreement, shareholders have resolved that USCE shall temporarily hold all shares of ASC on behalf of other shareholders, until legal formalities for the share transfer are concluded. The legal transfer process has started and expected to complete in the first half of 2010. All significant business decisions of ASC require consent of all shareholders.

c) Available for sale investments at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Cost:		
Quoted securities	394,253	828,199
Unquoted investments	585,945	473,797
Total Cost	980,198	1,301,996
Impairment loss on:		
Quoted securities	(127,893)	(355,875)
- Unquoted investments	(16,867)	(78,075)
Total impairment loss	(144,760)	(433,950)
Revised cost	835,438	868,046
Unrealized (loss) on quoted securities	--	(103,969)
Carrying value	835,438	764,077

Unquoted investments include the Group's ownership of 14% in Swicorp Joussour Company amounting to SR 209 million (2008: SR 209 million), 15% in Swicorp Company, Saudi Arabia amounting to SR 116 million (2008: SR 116 million), 5% in Dar Al Tamleek SR 26.5 million (2008: SR14 million), and 6.4% Knowledge Economic City SR 217 million (2008: 217million).

9. INVESTMENTS (continued)

d) Other investments at December 31, 2009 mainly represent investments in real estate projects amounted to SR 804 million (2008: SR941 million) in Saudi Arabia and the Group's (100%) investment in Savola Snack Foods Company Ltd – under liquidation. ("SSFC")- a company in liquidation. No significant gain or loss is expected upon liquidation of SSFC. It also includes long term bank deposits of Savola Behshar Company amounting to SAR 31 million.

e) Gain on disposal of investments:

During the year, the Group has recognised a net gain of SR 194.9 million on account of dilution of its ownership interest in Al-Marai. This gain has resulted due to Al-Marai's issuance of its shares to other parties as a consideration of acquiring a business at a premium. The amount of gain represents the difference between the carrying amounts immediately before and after the acquisition transaction of Al-Marai.

Gains on disposal of investments for the year ended December 31, 2009 also include the Group's disposal of interest in Azizia Commercial Investment Company (ACI) realizing gain of SR 33 million.

10. INTANGIBLE ASSETS

a) Intangible assets at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Deferred costs	112,258	140,291
Goodwill	917,611	654,373
	1,029,869	794,664

b) **Deferred costs**

The movement in deferred costs for the year ended December 31 is as follows:

	2009 Total (SR 000)	2008 Total (SR 000)
Cost		
Balance at beginning of the year	390,559	273,890
Additions during the year	30,719	116,669
Balance at end of the year	421,278	390,559
Accumulated amortization		
Balance at beginning of the year	(250,268)	(195,456)
Charge for the year	(58,752)	(54,812)
Balance at end of the year	(309,020)	(250,268)
Net balance at December 31	112,258	140,291

Additions to deferred charges principally represent expense incurred on setting up new retail outlets in Saudi Arabia and amount paid to acquire rights for leased land.

10. INTANGIBLE ASSETS (continued)

c) **Goodwill**

The movement in goodwill for the year ended December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Balance at beginning of the year	654,373	238,414
Additions during the year		
- KUGU Gida Yatum Ve Ticaret A.S	--	200,368
- Giant Stores Trading Company	--	83,452
- Savola Industrial Investments Company	--	116,150
- AFIA International Company	56,368	64,204
- Savola Foods Company	25,981	--
- New Marina for Plastic Industries	9,080	--
- Saudi Géant Company Limited	224,482	--
- United Company for Central Markets	1,225	--
	317,136	464,174
	971,509	702,588
Adjustments due to exchange rate fluctuation and Impairment losses	(53,898)	(48,215)
Balance at end of the year	917,611	654,373

11. PROPERTY, PLANT AND EQUIPMENT

a) The movement in property, plant and equipment during the year ended December 31, 2009 is analyzed as under:

	Land	Buildings	Leasehold improvements	Plant and equipment	Furniture and office equipment	Motor vehicles	Capital work in progress	Total
	(SR 000)	(SR 000)	(SR 000)	(SR 000)	(SR 000)	(SR 000)	(SR 000)	(SR 000)
Cost:								
Balance at January 1, 2009	423,489	1,425,488	520,649	3,034,496	763,184	174,211	316,398	6,657,915
Additions	16,228	77,853	139,344	160,583	128,758	69,022	47,936	639,724
Transfers from capital work in progress	--	--	--	--	--	--	--	--
Assets acquired in business combinations	483,152	459,247	--	303,854	174,513	14,979	84,170	1,519,915
Disposals	(32,472)	(215,191)	(1,581)	(24,017)	(33,569)	(15,122)	(1,736)	(323,688)
Balance at December 31, 2009	890,397	1,747,397	658,412	3,474,916	1,032,886	243,090	446,768	8,493,866
Accumulated depreciation:								
Balance at January 1, 2009	--	317,406	187,157	1,398,814	405,609	98,266	--	2,407,252
Charge for the year	--	76,812	28,224	169,276	104,050	37,746	--	416,108
Assets acquired in business Combinations	--	51,227	--	129,633	13,223	9,924	--	204,007
Disposals	--	(12,181)	(646)	(16,669)	(28,088)	(12,678)	--	(70,262)
Balance at December 31, 2009	--	433,264	214,735	1,681,054	494,794	133,258	--	2,957,105
Net book value:								
At December 31, 2009	**890,397**	**1,314,133**	**443,677**	**1,793,862**	**538,092**	**109,832**	**446,768**	**5,536,761**
At December 31, 2008	423,489	1,108,082	333,492	1,635,682	357,575	75,945	316,398	4,250,663

11. PROPERTY, PLANT AND EQUIPMENT (continued)

b) Additions include SR 1.7 million in respect of interest capitalized during 2009 (2008: SR 12.9 million). The rate used to determine the amount of finance costs capitalized during 2009 was 4% (2008: 6%).

c) Capital work in progress relates to the construction of super markets and hyper markets for APUC and upgrading and enhancing the production facilities of AIC, SPS and some of their subsidiaries.

d) Under the terms of land lease agreements with Jeddah Industrial City, Jeddah Islamic Port and Riyadh Industrial City, certain subsidiaries have renewable operating leases for lands on which their production facilities are located. Annual lease and service charge payments to the lessor are nominal.

e) See Note 16 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 DEBTS

Short-term debts consist of bank overdrafts, short-term loans and Murabaha financing arrangements from various commercial banks and other financial institutions. Such debts bear financing charges at the prevailing market rates. Some of these short-term bank debts are secured by corporate guarantees of the Group.

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities at December 31 comprise of the following:

	2009 (SR 000)	2008 (SR 000)
Accrued expenses	246,587	218,803
Accrued Zakat and income tax (Note 24(b))	203,948	88,358
Balances related to forward contracts	226,030	200,891
Employee related accrual	218,847	137,932
Due to related parties (Note 27 (a))	189,933	112,247
Unclaimed dividend	167,822	160,347
Accrued advertising	37,535	88,520
Directors' remuneration (Note 27 (b))	6,722	6,406
Deferred tax liability	6,207	--
Other	157,248	310,330
	1,460,879	1,323,834

14. DEFERRED GAIN

During 2009, the Group’s real estate subsidiary, Al Matoun sold some of its land and buildings (leased to APU) having a net book value of SR 231.22 million (2008: SR 48.3 million) and realized a net capital gain of SR 62.78 million (2008: SR 34.99 million) from such sale. Concurrently, the third party entered into an operating lease agreement with APU for the lease of same assets for a period of eighteen (2008: ten) years. Accordingly, the Group has deferred the gain of SR 62.78 million (2008: SR 34.99 million) over the lease period.

15. 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 2010 and, accordingly, they have been classified under non-current liabilities.

16. LONG-TERM DEBTS

Long-term debts at December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Saudi Industrial Development Fund ("SIDF")	21,134	32,239
Commercial banks and financial institutions	2,770,157	1,224,538
	2,791,291	1,256,777

Presented in the balance sheet:

Current portion included under current liabilities	795,089	139,641
Non-current portion included under non-current Liabilities	1,996,202	1,117,136
	2,791,291	1,256,777

SIDF loans

SIDF has provided loans to Herfy, and SPS to finance the manufacturing facilities and expansion projects. The loans are secured by a charge on property, plant and equipment and personal/corporate guarantees of the shareholders. At December 31, 2009, property, plant and equipment having a value of SR 651 million (2008: SR 1,757 million) were charged as security against SIDF loans. The SIDF loan agreements include certain covenants, which among other things require that certain financial ratios be maintained.

Commercial banks and financial institution debts

The Group has obtained loans and Murabaha financing from various commercial banks and financial institutions in order to finance capital projects, investments and for working capital requirements. Finance charges on these debts are based on prevailing market rates.

At December 31, 2009, the loan of SR 1,257 million (2008: SR 170 million) owed by subsidiaries are secured by a corporate guarantee of the Savola Group and a letter of understanding issued to the commercial banks. At December 31, 2009, certain foreign subsidiaries' loans amounting to SR 336 million (2008: SR 269 million) are secured by a lien over property, plant and equipment of such subsidiaries.

The financing agreements include certain covenants, which, among other things, require certain financial ratios to be maintained.

17. SHARE CAPITAL AND DIVIDENDS

At December 31, 2009, the Company's share capital of SR 5 billion consists of 500 million fully paid shares of SR 10 each (December 31, 2008: SR 5 billion consists of 500 million fully paid shares of SR 10 each).

The details of interim dividends approved and final dividend proposed by the Board of Directors are as follows:

Date	Dividend rate	Interim / Final	Amount SR (Million)
April 19, 2009	SR 0.25 per share	Interim	125
July 18, 2009	SR 0.25 per share	Interim	125
October 17, 2009	SR 0.25 per share	Interim	125
January 17, 2010	SR 0.25 per share	Final	125

18. STATUTORY RESERVE

In accordance with the Company's 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.

Statutory reserve is not available for distribution to the shareholders. However, the statutory reserve can be used for meeting the Company's losses or for increasing its capital. If the reserve exceeds one half of the company's capital, the general meeting may resolve to distribute such excess as dividends among the shareholders in the years during which the Company fails to achieve sufficient net profits for distribution of the minimum dividends prescribed in Company's articles of association.

19. OTHER INCOME – NET

Other income for the year ended December 31 comprises the following:

	2009 (SR 000)	2008 (SR 000)
Product listing and opening fees	30,008	52,967
Scrap sales	34,120	15,881
Rental income	1,844	988
Others – net	13,905	40,690
	79,877	110,526

Product listing fee represents the fee received from suppliers to list their products in new retail store openings and is recognized in the period it is earned.

20. SELLING AND MARKETING EXPENSES

Selling and marketing expenses for the year ended December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Staff costs	565,210	454,200
Rent	188,486	134,990
Advertising and sales promotion	256,214	198,515
Depreciation	192,650	109,036
Utilities	110,948	78,759
Repairs, maintenance and consumables	50,565	31,205
Bad and doubtful debts	8,074	3,491
Other	161,427	112,837
	1,533,574	1,123,033

21. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31 comprise the following:

	2009 (SR 000)	2008 (SR 000)
Staff costs	378,338	296,944
Amortization and impairment of intangible assets	43,329	27,521
Depreciation	18,870	23,037
Rent	18,994	12,789
Technical and professional fees	24,118	28,671
Utilities, telephone and communication	14,001	12,814
Travel	13,918	12,459
Repairs and maintenance	7,272	8,651
Training	6,772	6,945
Insurance	6,280	8,817
Computer-related	3,958	3,569
Other	92,933	23,274
	628,783	465,491

22. IMPAIRMENT OF ASSETS

During the year, the Group has re-assessed the fair valuation of investments available for sale and made an impairment loss adjustment of SR 145 million (2008: SR 432 million) representing the difference between carrying value and fair value at December 31, 2009.

In accordance with the requirement of SOCPA standard on “Intangibles Assets”, Group management has carried out an impairment test in respect of the Goodwill carried in the Group’s consolidated financial statements in respect of certain overseas operations. The recoverable amounts have been determined based on “value in use” and other financial performance indicators.

The key assumptions used for value-in-use calculations are as follows:

1. Budgeted gross margin.
2. Weighted average growth rate
3. Discount rate applied to the cash flow projections.

Management determined budgeted gross margin and weighted average growth rates based on past performance and its expectations of relevant economic development. The discount rates used are pre-Zakat / tax and reflect specific risks relating to the industry. The results of impairment tests at December 31, 2009 resulted in an impairment charge of SR SR 44.96 million in these consolidated financial statements.

23. FINANCIAL CHARGES- NET

Financial charges-net for the year ended December 31 comprises the following:

	2009 (SR 000)	2008 (SR 000)
Bank commission on loans and other borrowings	244,468	162,800
Income earned on short-term bank deposits	(17,131)	(9,142)
	227,337	153,658

24. ZAKAT AND INCOME TAXES

a) **Charge for the year**

The Company and its subsidiaries file separate Zakat and income tax declarations, which are filed on an unconsolidated basis using the equity method of accounting. 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 property, plant and equipment, investments and certain other items. In case of negative Zakat base, no Zakat is payable by the Company for the year.

24. ZAKAT AND INCOME TAXES (continued)

Zakat and income-tax charge for the year ended December 31 comprise the following:

		2009 (SR 000)	2008 (SR 000)
Zakat	– current year	23,564	16,982
	– prior years	--	10,175
Income-tax	– current year	39,759	26,230
		63,323	53,387

(b) **Accrued Zakat and income-tax**

The movement in the accrued Zakat and income-tax for the year ended December 31, is analyzed as under:

	2009 (SR 000)	2008 (SR 000)
Balance at beginning of the year	88,358	112,449
Adjustment due to consolidation of a subsidiary	111,251	
Charge for the year	63,323	53,387
Payments and adjustments during the year	(58,984)	(77,478)
Balance at end of the year	203,948	88,358

c) **Zakat Status**

The Company has obtained final Zakat certificates up to the year ended December 31, 1998 and has obtained the provisional Zakat certificate up to the year ended December 31, 2007. The Company has submitted final Zakat return for the year 2007.

During 2004, the Department of Zakat and Income Tax (DZIT) assessed an additional Zakat liability of SR 16.8 million for the years 1999 to 2002, against which the Company filed two objection letters with the Zakat Objection Committee ("ZOC"). The Zakat Objection Committee (ZOC) issued its decision for the years 1999 & 2000 in favour of the Company according to which the Zakat differences of SR 4.9 million were reduced to SR 292 thousand. However, the DZIT filed an appeal with the Higher Zakat Appeal Committee (HZAC) against the ZOC decision. The HZAC issued its decision in favour of the DZIT on March 10, 2007. The Company filed a petition against the HZAC decision with the Board of Grievances, the result of which has not been declared yet. In respect of the years 2001 and 2002, ZOC issued its decision based on which the Zakat differences have been reduced from SR 11.8 million to SR 3 million. However, the Company filed an appeal with HZTAC against the remaining balance of SR 3 million, together with the bank guarantee of the said balance. The HZTAC issued its decision in favour of the Company, which resulted in waiving the remaining balance of SR 3 million.

In respect of the years 2003 and 2004, the DZIT issued its assessment and claimed Zakat differences of SR 4.3 million. The Company filed an objection against the said Zakat differences, to the Second Preliminary Objection Committee (SPOC), which issued its decision and reduced differences of SR 4.3 million to SR 3.5 million. The Company has filed the appeal with HZTAC against SPOC decision and submitted the bank guarantee for SR 3.5. The outcome of the above pending appeals has not been finalized at the time of issuance of these consolidated financial statements.

24. ZAKAT AND INCOME TAXES (continued)

In respect of the years 2005, 2006 and 2007, the DZIT has not issued its assessments yet.

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

Some Saudi consolidated subsidiaries received assessments from the DZIT concerning their Zakat declarations for the open years, in which the DZIT assessed additional Zakat liabilities of approximately SR 36.6 million. This amount mainly resulted from application of ministry of Ministerial Resolution No. 1005 against consolidated financials of one of the subsidiaries for the year 2005 and 2006.

The companies objected to such assessments and filed their cases and the matter is pending with the DZIT and Appeal Committees.

c) **<u>Income tax status</u>**

The Group's foreign subsidiaries are obliged to pay income tax as per applicable tax laws of their countries of incorporation. Some of the subsidiaries are currently tax exempt. Tax paying subsidiaries determine their liabilities based on applicable corporate rates to the adjusted taxable income for the year. Certain subsidiaries are also obliged to pay quarterly advances tax determined on prior year tax liability bases.

Certain subsidiaries have received final tax assessments for certain years and provisional tax assessments for other years. They have also received queries from departments of income tax after their assessment or inspections for open years, for which replies have been filed.

The group management believes that there are no significant amounts under protest with departments of income tax in any foreign operation.

25. EARNINGS PER SHARE

Earnings per share for the year ended December 31, 2009 have been computed separately by dividing the income from operations (including minority's share) and net income for such period by the weighted-average number of ordinary shares outstanding during the year December 31, 2009 of 500 million shares.

26. COMMITMENTS AND CONTINGENCIES

The Group has outstanding bank guarantees and letters of credit amounting to SR 786 million at December 31, 2009 (2008 - SR 338 million), which were issued in the normal course of business. Also see Note 11 with respect to guarantees given for certain loans, Note 23 with respect to Zakat contingencies, and Note 28 with respect to leases.

The Company has also given a corporate guarantee against an SIDF loan to an associated company in proportion to its ownership interest in the associated company.

At December 31, 2009, one of the subsidiaries had commitments to sell in 2010 refined sugar of approximately 196,731 tons (2008: 371,725 tons to sell in 2009) at prices, which would approximate the prevailing market prices at the contract date. The raw sugar price of committed sale contracts is hedged through forward contracts.

At December 31, 2009, the Group had outstanding commitments of SR 204 million (2008: SR 419 million) for investments.

27. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions mainly represent sale of products in the ordinary course of business to entities related to certain consolidated subsidiaries. The terms of such transactions are mutually agreed between the parties. One of the consolidated subsidiaries was provided technical services by its foreign shareholder. The Company arranges for credit facilities to its affiliated entities through local commercial banks. The Group has some investment related transactions and current account balances with some affiliate companies. All related party transactions are approved by the management.

During the year ended December 31, the Group had the following significant transactions with its related parties.

	2009 (SR 000)	2008 (SR 000)
Shareholders of subsidiaries:		
Revenues – net	588,863	547,070
Purchase of technical services	7,138	3,750
Rent Charged by subsidiary shareholder	600	300
Salaries and management fee charged by subsidiary shareholder	4,815	3,713

27. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

a) The balances with related parties at December 31, principally resulting from the aforementioned transactions, are as follows:

	2009 (SR 000)	2008 (SR 000)
Due from related parties (included under trade receivables)		
Certain shareholders of USC	82,329	62,844
Due from related parties (included under prepayment and other current assets)		
Dividend receivable from Savola Behshahr Company	--	104,479
Seerah City for Real Estate Development	30,265	90,958
Savola Behshahr Company	--	25,644
Shareholders of an associate	40,000	40,000
Net receivable from Muhadib Holding Company	--	146,544
Intaj Capital Limited	70,560	70,560
Afia Wings International Company Limited	2,757	2,757
Saudi Retail	3,736	--
Pronto Digital	569	--
Akwan	142	--
Hasoon	1,107	--
Others	388	1,901
Total	149,524	482,843
Due to related parties (included under accrued expenses and other current liabilities):		
Behshahr Industrial Development Company ("BID")	--	39,399
Current account with Kinan International For Real Estate Development Company	19,395	12,521
Kinan Arabia for Real Estate	50,000	50,000
Savola Snacks Foods Company (see Note 9 (d))	10,327	10,327
Ahmed Hammad Al Saeed	1,330	--
Al-Mohadib Holding company	21,942	--
Abdul Qadir Mohadib Company	23,316	--
Mohadib and Sons	59,800	--
Diyar Al Mashreq	3,823	--
Total	189,933	112,247

b) Board of Directors' remuneration for the years ended December 31, 2009 amounting to SR 2.2 million (2008: 2.2 million) has been calculated in accordance with the Company's Articles of Association and is considered as appropriation shown in the statement of changes in shareholders' equity. Attendance allowances to the directors and members of various board committees for the year ended December 31, 2009 amounting to SR 554 thousand (2008: SR 365 thousand) are charged to expenses and included under general and administrative expenses.

28. SEGMENT REPORTING

During the years ended December 31, 2009 and 2008, the principal activities of the Group were related to the manufacturing, wholesale, marketing and retail trading in various types of food and related products. Selected financial information as of December 31, 2009 and 2008, and for the years then ended, summarized by business segment area, are as follow:

	Manufacturing/ wholesale (SR 000)	**Retail** (SR 000)	**Investment and other activities** (SR 000)	**Total** (SR 000)
2009				
Property, plant and equipment – net	2,881,190	2,650,149	5,422	5,536,761
Other non-current assets – net	824,648	417,860	4,843,748	6,086,256
Revenue – net	9,997,106	7,920,096	--	17,917,202
Net income	477,573	136,783	337,209	951,565
2008				
Property, plant and equipment – net	2,244,188	2,000,514	5,961	4,250,663
Other non-current assets – net	1,299,256	224,292	4,042,487	5,566,035
Revenue – net	7,701,736	6,119,641	--	13,821,377
Net income	46,773	177,374	(21,789)	202,358

The Group's operations are conducted in Saudi Arabia, Egypt, Iran and certain other geographical areas. Selected financial information as of December 31, 2009 and 2008 and for the years then ended, summarized by geographic area, is as follows:

2009	Saudi Arabia (SR 000)	Egypt (SR 000)	Iran (SR 000)	Other countries (SR 000)	Total (SR 000)
Property, plant and equipment - net	3,674,247	793,471	658,118	410,925	5,536,761
Other non-current assets – net	5,111,511	294,589	--	680,156	6,086,256
Revenue – net	11,817,035	2,100,731	1,822,149	2,177,287	17,917,202
Net income	832,118	41,567	134,376	(56,496)	951,565
2008					
Property, plant and equipment - net	3,114,793	788,415	--	347,455	4,250,663
Other non-current assets – net	4,662,511	60,467	594,018	249,039	5,566,035
Revenue – net	10,485,597	1,743,635	--	1,592,145	13,821,377
Net income	376,267	(54,317)	67,318	(186,910)	202,358

29. 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, 2009 amounted to SR 236 million (2008: SR 180 million).

At December 31, 2009, the Group's obligations under operating leases are analyzed as under:

	2009 (SR 000)
Within one year	331,276
Between two and five years	313,876
More than five years	1,924,189
Total	2,569,341

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, trade receivables, investments, short-term bank debts, accounts payable, certain other assets and 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. The Group's interest rate risk arise mainly from short term bank deposits and bank debts and long term debts, which are at floating rates of interest. All deposits and debts 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.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi riyal, United States dollar, Iranian Riyal, Turkish Lira and Egyptian Pound. Against some of these group is exposed to currency risk. Other transactions in foreign currencies are not material.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market price risk is the risk that the fair value of a Group's available for sale investments fluctuates due to changes in market prices. The Group's holds investment in certain listed equities in Saudi and Jordanian stock exchange which carries market price risk. The Group endeavours to minimize risk through diversification across various sectors of the Saudi stock market and limiting its exposures to segments which are related to Group activities.

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 accompanying consolidated financial statements are prepared under the historical cost method, except for the revaluation of the available-for-sale securities at fair value through equity, and the consolidation of foreign subsidiaries at fair values; differences may 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.

31. SUBSEQUENT EVENTS

On January 17, 2010, the group completed an initial public offering in the Saudi capital market of 30% of its share capital in Herfy raising SR 413.1 million. The shares are listed on the Tadawul securities market on February 2, 2010.