

Saudi Advanced Industries Co.
(Saudi joint stock company)
Financial Statements
and Auditors' Report
for the year ended December 31, 2007

Associated accountants
Accountants & Consultants
Member of BDO International

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Auditors' Report

**To: The Shareholders
Saudi Advanced Industries Co.
Riyadh, Saudi Arabia**

We have audited the accompanying balance sheet of **Saudi Advanced Industries Co.** as of December 31, 2007, and the related statements of income, changes in shareholder' equity and cash flows for the year then ended, and the notes from 1 to 15, which are an integral part of these financial statements, which were prepared by the management according with article 123 of the Regulations for Companies and presented to us together with all the information and explanations which we requested. The accompanying financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Saudi Advanced Industries Co.** as of December 31, 2007, and the results of its operations, and cash flows for the year then ended in accordance with the generally accepted accounting principles applicable to the Company, and comply with the relevant provisions of the regulations for Companies and the articles of the Company as these relate to the preparation and presentation of these financial statements.

The Company maintains Arabic accounting records as required by the relevant regulations and the financial statements are in agreement therewith.

Riyadh - Saudi Arabia
Date: January 17, 2008



Associated Accountants

Hamud Al-Rubian
(Certified Accountant-License No. 222)

Saudi Advanced Industries Co.
Balance Sheet
as of December 31, 2007

<u>Assets</u>	<u>Notes</u>	<u>2007</u>	<u>2006</u>
Current assets:			
Cash and cash equivalents	2&3	400,534,358	1,170,077
Investment in Islamic Murabahas	2	153,924,395	-
Prepaid expenses and other assets		1,584,243	115,233
Total current assets		<u>556,042,996</u>	<u>1,285,310</u>
Investments in associated company	2&4	51,024,205	-
Investment in available-for-sale securities	2&5	84,611,000	39,699,000
Investment in equity of companies	2&6	128,631,990	125,631,990
Property and equipment	2&7	21,469	18,628
Projects under progress		1,585,398	1,683,858
Total assets		<u>821,917,058</u>	<u>168,318,786</u>
<u>Liabilities & Shareholders' Equity</u>			
Current Liabilities:			
Due to related party	8	-	41,500,000
Accounts payable		884,089	909,804
Accrued expenses	9	231,639	50,609
Accrued Zakat	2&10	438,595	2,023,766
Total current liabilities		<u>1,554,323</u>	<u>44,484,179</u>
Provision for end of service benefits	2&11	210,801	201,541
Total liabilities		<u>1,765,124</u>	<u>44,685,720</u>
Shareholders' Equity:			
Share capital	12	432,000,000	108,000,000
Additional paid-in capital	12	312,003,589	-
Statutory reserve	13	1,560,328	-
Retained earnings (accumulated losses)		6,017,017	(8,025,934)
Unrealized gain on holding available-for-sale equity securities	5	68,571,000	23,659,000
Total shareholders' equity		<u>820,151,934</u>	<u>123,633,066</u>
Total liabilities and shareholders' equity		<u>821,917,058</u>	<u>168,318,786</u>

The accompanying notes from 1 to 15 are an integral part of these financial statements

Saudi Advanced Industries Co.
Statement of Income
for the year ended December 31, 2007

	Notes	2007	2006
Income from disposal of trading securities	2	-	1,464,261
Dividends received from investee companies	2	7,289,999	900,000
Income from investment in Islamic Murabahas	2	15,901,847	-
Company's share in net loss of associated company	4	(975,795)	-
Total income		22,216,051	2,364,261
General & administrative expenses	2&14	(3,472,357)	(1,921,014)
Financing charge	8	(2,700,811)	-
Other income		-	72,097
Income before Zakat		16,042,883	515,344
Provision for Zakat	2&10	(439,604)	(84,394)
Net income for the year		15,603,279	430,950
Basic earnings per share based on weighted-average of outstanding shares		0.44	.040

The accompanying notes from 1 to 15 are an integral part of these financial statements

Saudi Advanced Industries Co.
Statement of Cash Flows
for the year ended December 31, 2007

	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Net income for the year	15,603,279	430,950
Adjustments to reconcile net income to net cash flows provided by operating activities.		
Projects under progress (R & D)	98,460	-
Depreciation & amortization	13,388	9,519
Provision for end of service benefits	9,260	(73,691)
Accrued Zakat	(1,585,171)	(5,172)
Company's share in net loss of associated company	975,795	-
	<u>15,115,011</u>	<u>361,606</u>
Changes in operating assets and liabilities:		
Investment in Islamic Murabahas	(153,924,395)	-
Investment in trading securities	-	11,615,593
Prepaid expenses and other assets	(1,469,009)	(28,856)
Accounts payable	(25,715)	226,214
Accrued expenses and other liabilities	181,030	(31,840)
Net cash flows (used in) provided by operating activities	<u>(140,123,078)</u>	<u>12,142,717</u>
Cash Flows from Investing Activities:		
Additions to the equipments	(16,230)	(3,770)
Change in investments, net	(55,000,000)	(52,731,990)
Projects under progress (R&D)	-	(1,683,858)
Cash used in investing activities	<u>(55,016,230)</u>	<u>(54,419,618)</u>
Cash flows from financing activities:		
Proceeds from share capital increase	636,003,589	-
(Repayment of) Proceeds from related party	(41,500,000)	41,500,000
Net cash flows provided by financing activities	<u>594,503,589</u>	<u>41,500,000</u>
Net change in cash and cash equivalents	399,364,281	(776,901)
Cash and bank balances at the beginning of year	1,170,077	1,946,978
Cash and cash equivalents at the end of year	<u>400,534,358</u>	<u>1,170,077</u>

The accompanying notes from 1 to 15 are an integral part of these financial statements

Saudi Advanced Industries Co.
Statement of Changes in Shareholders' Equity
for the year ended December 31, 2007
(Saudi Riyals)

	Share Capital	Additional paid-in capital	Statutory reserve	Retained earnings (Accumulat ed losses)	Unrealized gain on available- for-sale equity securities	Total
<u>2006</u>						
Balance at January 1, 2006	108,000,000	-	-	(8,456,884)	-	99,543,116
Net income for the year	-	-	-	430,950	-	430,950
Net changes in unrealized gain	-	-	-	-	23,659,000	23,659,000
<u>2007</u>						
Balance at January 1, 2007	108,000,000	-	-	(8,025,934)	23,659,000	123,633,066
Increase in share capital	324,000,000	312,003,589	-	-	-	636,003,589
Net income for the year	-	-	-	15,603,279	-	15,603,279
Transfer to statutory reserve	-	-	1,560,328	(1,560,328)	-	-
Net change in unrealized gain	-	-	-	-	44,912,000	44,912,000
Balance at December 31, 2007	<u>432,000,000</u>	<u>312,003,589</u>	<u>1,560,328</u>	<u>6,017,017</u>	<u>68,571,000</u>	<u>820,151,934</u>

The accompanying notes from 1 to 15 are an integral part of these financial statements

Saudi Advanced Industries Co.
Notes to the Financial Statements

1- Organization and activities:

- A- Saudi Advanced Industries Co. (“the Company”) was incorporated as a Saudi joint stock company in accordance with the ministerial resolution No. 262 dated Rabia Al Awal 18, 1408H. And was registered in Riyadh under CR. No. 1010068321 dated Jumad Al Awal 24, 1408H (corresponding to January 13, 1988G).
- B- The objective of the Company is to bring advanced industrial technologies to the Kingdom of Saudi Arabia through participation in economic offset programs and other Industrial projects.

2- Significant accounting policies:

The accompanying financial statements have been prepared under historical cost convention on the accrual basis of accounting, and in compliance with the accounting standards promulgated by the Saudi Organization for Certified Public Accountants (“SOCPA”). Significant accounting policies adopted in preparation of these financial statements is as follows:

a) Depreciation of property and equipment:

Property and equipment are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method of accounting over the estimated useful lives of the assets, based on the following annual rates:

Leasehold improvement	15%
Motor vehicles	25%
Furniture and fixtures	15%
Computers	20 - 33.33%

Maintenance and repair expenses that do not substantially increase the useful lives of assets were charged to the expenses.

b) Investments:

- 1- Investments in the share capital of companies of less than 20% are valued at cost and adjusted for other than temporary decline in its value. Income from these investments is recognized when received.
- 2- Investment where the Company owns more than 20% of equity interest and exercises significant influence over the investee, are accounted for using the equity method. Under this method, the carrying value of the investment is adjusted to reflect any change in the investee’s equity. These adjustments are reflected in the statement of income.
- 3- Securities are classified as trading securities if they are purchased for the trading purposes in the short-term, and are measured at the balance sheet on the basis of its fair value. Unrealized gains or (losses) are charged in the income statement.

Investment in available-for-sale equity securities include securities not categorized as either held-to-maturity securities or trading securities. These securities are measured and reported at fair market value at balance sheet. Unrealized gain or loss is reported as separate component of shareholders’ equity. If the decline is other than temporary, unrealized loss is recognized in earnings of the relevant period.

2- Significant accounting policies (continued):

c) **End of service benefits:**

End of service benefits, payable to the employees upon their termination, are provided in the financial statements based on the employees' length of service, in accordance with guidelines of the Saudi Arabian labor regulations.

d) **Foreign currency translation:**

Foreign currency transactions are converted into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

e) **Operating lease:**

Leases are classified as operating leases when the risks and rewards of owning asset remain with the lessor. Periodic payments of rent under operating lease are recorded as expenses in the income statement using straight-line basis over the lease term

f) **Zakat:**

Zakat is provided for on accrual basis for each year separately in accordance with Zakat regulations applicable in the Kingdom of Saudi Arabia, any difference in the estimate is charged to the income statement when the final assessment is approved in accordance with disclosure standard requirements applicable to the accounting changes.

g) **Dividends:**

Profit distributions are recorded in the year in which the General Assembly approves such distributions.

h) **Earnings per share:**

Earnings per share are calculated on the basis of weighted-average number of common shares outstanding at the year-end.

I) **Cash and cash equivalent:**

Cash and cash equivalent include cash on hand, at banks and highly liquid deposits with original maturities of three months or less from the date of purchase which are in the form of Islamic Murabahas.

3- Cash and cash equivalent:

	<u>2007</u>	<u>2006</u>
Cash on hand	2,000	2,000
Cash at bank	352,802	1,168,077
	<u>354,802</u>	<u>1,170,077</u>
Islamic Murabahas	400,179,556	-
	<u>400,534,358</u>	<u>1,170,077</u>

4- Investments in associated company:

Investment in associated company represents the Company's investment in Al-Obaikan Glass Company, closed joint stock company, at 25% of its share capital. This investment is presented in accordance with equity method (Note 2). This investment is summarized as follows:

	<u>2007</u>	<u>2006</u>
Investment cost	52,000,000	-
Company's share in net loss of associated company	(975,795)	-
	<u>51,024,205</u>	<u>-</u>

The above investee is still under development stage, so the Company's share in loss of SAR. 975,795 represent the Company's interest in the pre-operating expenses of the said investee.

5- Investment in available-for-sale securities:

This represents the Company's investment in Yanbu National Petrochemical Company (YANSAB) by 0.285% of YANSAB share capital.

The following is the movements in the investment account:

	<u>2007</u>	<u>2006</u>
Carrying value at the beginning of year/cost	39,699,000	16,040,000
Unrealized gain	44,912,000	23,659,000
Balance as at December 31, 2007	<u>84,611,000</u>	<u>39,699,000</u>

6- Investments in equity of companies :

	<u>Ownership percentage</u>	<u>2007</u>	<u>2006</u>
Arabian Industrial Fibers Co. (Ibn Rushd)	0.62%	53,160,000	53,160,000
Al Salam Aircraft Co. Ltd.	10%	19,940,000	16,940,000
Industrialization and Energy Services Co.	3.38%	67,499,990	67,499,990
Gulf Salt Co. Ltd.	11.18%	5,032,000	5,032,000
Total investments		<u>145,631,990</u>	<u>142,631,990</u>
Provision for decline in investment's value (Ibin Rushd)		<u>(17,000,000)</u>	<u>(17,000,000)</u>
		<u>128,631,990</u>	<u>125,631,990</u>

During the year 2007, the share capital of Ibin Rushed, an investee, has been increased from SAR. 3.55 billions to SAR. 8.51 billions through converting the loan granted by General Investment Fund (GIF) into common shares and GIF being as shareholder. According to the above, the Company's ownership percentage in this investment is changed from 1.5% to 0.62% and its share in accumulated losses is decreased to SAR. 20.3 millions (SAR. 39.29 million for the year 2006). The Management believes that the provision is sufficient to meet the potential decline in the value of such investment, due to the investee projected plans to produce new products for the purpose of improving its operations and capital structure.

7- Property and equipment:

Property and equipment is comprised of the following:

<u>Costs</u>	<u>Opening balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance as at December 31, 2007</u>
Computers & programs	63,422	16,230	(20,090)	59,562
Vehicles	27,500	-	-	27,500
Office tools	102,139	-	(18,190)	83,949
Leasehold improvements	150,000	-	-	150,000
Office furniture	153,195	-	-	153,195
Total	<u>496,256</u>	<u>16,230</u>	<u>(38,280)</u>	<u>474,206</u>
<u>Accumulated depreciation:</u>				
Computers & programs	(53,060)	(9,432)	20,090	(42,402)
Vehicles	(27,499)	-	-	(27,500)
Office tools	(96,537)	(3,000)	18,190	(81,347)
Leasehold improvements	(149,998)	-	-	(149,998)
Office furniture	(150,534)	(956)	-	(151,490)
Total	<u>(477,628)</u>	<u>(13,388)</u>	<u>38,280</u>	<u>(452,737)</u>
Book value	<u>18,628</u>			<u>21,469</u>

8- Due to related party:

A finance agreement was signed in the year 2006 between the Company and its board of directors' chairman, Mr. Khaled Al Shithry, ("the Chairman"). Neither any privileges due to the Chairman nor any liabilities assumed by the Company as a result of this agreement except for the usual finance fees. The financing cost resulted from this agreement was SAR. 2,700,811 which was charged to the income statement in the year 2007.

9- Other payables & accruals:

	<u>2007</u>	<u>2006</u>
Accrued expenses	195,000	24,310
Accrued tickets and vacations	36,639	26,299
	<u>231,639</u>	<u>50,609</u>

10- Provision for Zakat:

a) Zakat provision is comprised of the followings: -

	<u>2007</u>	<u>2006</u>
Share capital	108,000,000	108,000,000
Provisions	17,210,801	19,140,913
Income for the year before Zakat	16,042,883	515,344
Financing of investments' additions during the year 2007	55,000,000	-
The repaid amount to related party from share capital increase	41,500,000	-
Due to related party	-	41,500,000
	237,753,684	169,156,257
Less:		
Property and equipment	(21,470)	(18,627)
Investments	(213,671,990)	(158,671,990)
Projects under progress	(1,585,398)	(1,683,858)
Adjusted accumulated losses	(4,890,675)	(5,406,019)
1- Zakat base-shareholders' equity	17,584,151	3,375,763
2- Zakat base-adjusted net income	16,052,143	515,344

b) Movements in Zakat provision are summarized as follows:

	<u>2007</u>	<u>2006</u>
Balance at the beginning of year	2,023,766	2,028,938
Additions during the year	439,604	84,394
Payments during the year	(2,023,766)	(89,566)
Advanced payments	(1,009)	-
Balance at the end of year	438,595	2,023,766

c) Status of Zakat assessment:

The Company finalized its Zakat assessment with department of Zakat and income tax up to year 2006.

11- Provision for end of service benefits:

The movements in employees' end of service benefits are as follows:

	<u>2007</u>	<u>2006</u>
Balance at the beginning of year	201,541	275,232
Paid during the year	(71,628)	(108,146)
Provided during the year	80,888	34,455
Balance as at the end of year	210,801	201,541

12- Share capital:

The Company's extraordinary general assembly resolved to increase the company's share capital from SAR. 108 millions to SAR. 432 millions during its meeting held on 28 Dhul Hijjah 1427H through allowing the registered (outstanding) shareholders at the date of the above meeting to subscribe into the shares of increase by granting the right for each shareholder to subscribe into 3 shares against each owned share at the date of subscription. The increase shares were issued at SAR. 20 which comprised of 10 Riyals as par value and the remainder of SAR. 10 is additional paid-in capital in excess of par. The shares of capital increase are outstanding since 19/03/1428H corresponding to April 7, 2007G. As a result of, earnings per share is computed based on weighted-average of the outstanding shares during the year.

13- Statutory reserve:

In accordance with Saudi Arabian Companies Regulations and the Company's Articles of Association, 10% of the annual net income is required to be transferred to statutory reserve until it reaches 50% of share capital. This reserve is not available for dividends distribution.

14- General and administrative expenses:

	<u>2007</u>	<u>2006</u>
Salaries, wages and benefits	907,893	573,819
Expenses of investee companies	223,271	232,869
Board of directors meeting	483,000	486,500
Professional fees	512,500	57,798
Financial statements' publishing expenses	102,403	89,158
Social insurance	66,207	42,901
Rent	95,632	73,207
Vacation & tickets	70,339	67,177
Travels & transportations	37,344	25,380
End of service benefits	80,888	34,455
Stock registration fees	180,000	60,000
Subscription fees	23,146	13,686
Post & telephone	21,305	21,123
Depreciations	13,388	9,519
Zakat of prior years	588,835	-
Miscellaneous	66,206	133,422
	<u>3,472,357</u>	<u>1,921,014</u>

15- Dividends:

No dividends were proposed for distribution as the date of financial statements issuance.

The expenses of Board of Directors meeting and its related committees including the managing director's remuneration were amounted to SAR. 483,000 (SAR. 486,500 for 2006).