

SAUDI ADVANCED INDUSTRIES COMPANY
SAUDI JOINT STOCK COMPANY
RIYADH – SAUDI ARABIA

THE FINANCIAL STATEMENTS AND
AUDITORS' REPORT FOR THE YEAR
ENDED DECEMBER 31, 2008

1195/100/A

**AUDITORS REPORT TO THE SHAREHOLDERS OF
SAUDI ADVANCED INDUSTRIES COMPANY**

We have audited the accompanying balance sheet of Saudi Advanced Industries Company – A Saudi Joint Stock Company – as of December 31, 2008 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended together with notes 1-15. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit and information, which we obtained and deemed necessary in the circumstances.

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 misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements as a whole:

- Present fairly, in all material respects, the financial position of Saudi Advanced Industries Company – A Saudi Joint Stock Company – as of December 31, 2008 and the results of its operations and cash flows for the year then ended, in the light of presentation and disclosures of information contained in the financial statements and in conformity with generally accepted accounting principles relevant to the Company's underlying circumstances.
- Comply with the requirements of companies' regulations in the Kingdom of Saudi Arabia and the company's articles of association concerning the presentation and disclosure of the financial statements.
- We would like to draw the attention to note No.(5) relating to the provision made against the diminution in investment value of Arabian Industrial Fibers Company (Ibn Rushd).



Aldar Audit Bureau
Abdullah Al Basri & Co.

Abdullah M. AlBasri
Certified Public Accountant
(License No.171)

Riyadh, Safar 21, 1430 A.H.
Corresponding to February, 16, 2009 A.D.

**BALANCE SHEET
AS OF DECEMBER 31, 2008**

	<u>NOTE</u>	<u>2008</u> S.R.	<u>2007</u> S.R.
ASSETS			
Current Assets			
Cash		1,343,910	354,802
Prepayments & Other debit accounts		1,725,338	1,584,242
Investments in Islamic Murabaha		263,479,614	554,103,952
Total current assets		<u>266,548,862</u>	<u>556,042,996</u>
Non-current assets			
Investments in associated companies	(4)	38,629,680	19,024,205
Investments in other companies' capitals After provision	(5)	294,629,126	128,631,990
Investments in securities available for sale		48,388,200	84,611,000
Net book value of fixed assets	(6)	70,391	21,469
Intangible assets – Goodwill	(7)	241,504,755	32,000,000
Projects under study		1,971,585	1,585,398
Total non-current assets		<u>625,193,737</u>	<u>265,874,062</u>
Total assets		<u>891,742,599</u>	<u>821,917,058</u>
LIABILITIES & SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable	(8)	187,500,000	884,089
Accrued expenses & Other credit accounts		109,816	231,639
Zakat provision	(9)	1,973,844	438,595
Total current liabilities		<u>189,583,660</u>	<u>1,554,323</u>
Non-current liabilities			
Provision for end of service indemnity		313,238	210,801
Total liabilities		<u>189,896,898</u>	<u>1,765,124</u>
SHAREHOLDERS' EQUITY			
Capital		432,000,000	432,000,000
Premium issue		312,003,589	312,003,589
Statutory reserve		3,351,979	1,560,328
Retained earnings		22,141,874	6,017,017
Unrealized (losses) gains on securities Available for sale		(67,651,741)	68,571,000
Net shareholders' equity		<u>701,845,701</u>	<u>820,151,934</u>
Total liabilities & shareholders' equity		<u>891,742,599</u>	<u>821,917,058</u>

“The attached notes 1 to 15 form part of these financial statements”

**STATEMENT OF INCOME
AS OF DECEMBER 31, 2008**

	NOTE	<u>2008</u> S.R.	<u>2007</u> S.R.
Dividends received from investee companies		9,584,999	7,289,999
Income received from investments in Islamic Murabaha		15,946,938	15,901,847
Company's share from net losses of investments in associated companies		<u>(394,525)</u>	<u>(975,795)</u>
Total income		25,137,412	22,216,051
General & Administrative expenses	(10)	(5,236,338)	(2,883,522)
Financing charges		---	(2,700,811)
Gain on disposal of fixed assets		<u>3,999</u>	<u>---</u>
Net income before zakat		19,905,073	16,631,718
Zakat		<u>(1,988,565)</u>	<u>(1,028,439)</u>
Net income for the year		<u>17,916,508</u>	<u>15,603,279</u>
Income per share	(11)	<u>0.41</u>	<u>0.36</u>

“The attached notes 1 to 15 form part of these financial statements”

**STATEMENT OF CASH FLOWS
AS OF DECEMBER 31, 2008**

	2008	2007
	S.R.	S.R.
Cash flows from operating activities		
Net income before zakat	19,905,073	16,631,718
Adjustments		
Paid zakat	(453,316)	(2,613,610)
Depreciation of fixed assets	24,027	13,388
Gain on sales of fixed assets	(3,999)	---
Provision for end of service indemnities	102,437	9,260
Company's share from net losses of associated company	394,525	975,795
Changes in operating assets & liabilities		
Prepayments & Other debit accounts	(141,096)	(1,469,009)
Accounts payable	186,615,911	(25,715)
Accrued expenses & Other credit accounts	(121,823)	181,030
Net cash flows provided by operating activities	<u>206,321,739</u>	<u>13,702,857</u>
Cash flows from investing activities		
Purchase of fixed assets	(72,949)	(16,230)
proceeds from sale of fixed assets	3,999	---
Projects under study	(386,187)	98,460
Investments in Islamic Murabaha	290,624,338	(554,103,951)
Investments in associated companies	(20,000,000)	(20,000,000)
Investments in securities available for sale	(99,999,941)	---
Investment in other companies' capitals	(165,997,136)	(3,000,000)
Intangible assets – Goodwill	(209,504,755)	(32,000,000)
Net cash flows (used in) investing activities	<u>(205,332,631)</u>	<u>(609,021,721)</u>
Cash flows from financing activities		
Capital	---	636,003,589
Related parties	---	(41,500,000)
Net cash provided by financing activities	<u>---</u>	<u>594,503,589</u>
Balance of cash	989,108	(815,275)
Cash balance at beginning of the year	354,802	1,170,077
Cash balance cash at end of the year	<u>1,343,910</u>	<u>354,802</u>

“The attached notes 1 to 15 form part of these financial statements”

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
AS OF DECEMBER 31, 2008**

	Capital	Premium issue	Statutory reserve	Unrealized gains on security available for sale	Retained earnings
	S.R	S.R	S.R	S.R	S.R
Balance as of December 31, 2006	108,000,000	---	---	23,659,000	(8,025,934)
Net income for the year ended December 31, 2007	---	---	---	---	15,603,279
Increase in capital	324,000,000	312,003,589	---	---	---
Unrealized gains	---	---	---	44,912,000	---
Transferred to statutory reserve	---	---	1,560,328	---	(1,560,328)
Balance as of December 31, 2007	432,000,000	312,003,589	1,560,328	68,571,000	6,017,017
Net income for the year ended December 31, 2008	---	---	---	---	17,916,508
Unrealized losses	---	---	---	(136,222,741)	---
Transferred to statutory reserve	---	---	1,791,651	---	(1,791,651)
Balance as of December 31, 2008	<u>432,000,000</u>	<u>312,003,589</u>	<u>3,351,979</u>	<u>(67,651,741)</u>	<u>22,141,874</u>

“The attached notes 1 to 15 form part of these financial statements”

NOTES TO THE FINANCIAL STATEMENTS**1. INTRODUCTION****Name of the Company**

Saudi Advanced Industries Company

Legal entity of the Company

Saudi Joint Stock Company

Formation of the Company

The company was incorporated in accordance with the companies' regulations issued by the Royal Decree No. M/6 dated 22/3/1385AH. and its amendments based on the Ministerial Resolution No. 433 dated Jumada Alawal 10, 1408 AH. after being licensed vide the Ministerial Resolution No. 262 dated Rabia Alawal 18,1408AH.

Head Office of the Company

The head office of the company is located in Riyadh city, whereas it can be transferred to any other cities within the Kingdom if decided so by the extraordinary general assembly. The board of directors of the company has the virtue to establish branches, agencies, offices or showrooms inside or outside the Kingdom of Saudi Arabia whenever found to be necessary to serve the company's interest.

Duration of the Company

The duration of the company is 99 Hijra years commencing from the issuance of the resolution of the Ministry of Commerce, the duration of the company can be prolonged upon a resolution to be taken by the extraordinary general assembly at least one year prior to the end of its duration.

Authorized capital

The subscribed and paid up capital amounted to SR. 432 Millions divided to 43,200,000 shares, each share has a par value of SR.10.

Commercial registration

The company was incorporated vide the commercial registration No. 1010068321 issued in Riyadh on Jumada Alawal 24, 1408AH. corresponding to January 13, 1988AD.

Objectives of the Company

The company's main objective is to transfer advanced industrial technology to the Kingdom through participation in economic offset programs and other industrial projects.

Fiscal year

The company's fiscal year starts on January 1st and end on December 31st of the same year. The issued financial statements for the period ended on December 31, 2008 and are compared with those ended on December 31, 2007.

2. BASIS OF ACCOUNTING, PREPARATION & PRESENTATION OF FINANCIAL STATEMENTS

- a) The financial statements have been prepared on accrual basis under the historical cost convention and in accordance with generally accepted accounting principles.
- b) The books of accounts are maintained by computer in Arabic language.
- c) The financial statements had been disclosed in accordance with the accounting standards issued by SOCPA.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Investments

Whenever the investments in other companies' capital wherein the company owns between 20% to 50% of their capitals, then such investments are valued and stated after the issuance of the related financial statements at equity method, and when the investments are less than 20%, then the value is stated at cost which represents the fair value at the end of the year.

b) Investments in securities available for sale

- Investments in securities available for sale are valued at the balance sheet date at fair value (market value). Any temporary decrease or increase in their values are stated under shareholders' equity (balance sheet statement) and classified under unrealized gains from investments. Any permanent diminutions in their values are disclosed under losses of investments and deducted from the investments value.
- Securities bought for the purposes of selling are valued at the basis of fair value, unrealized losses or gains resulting from this process are stated in the statement of income.

c) Fixed assets

The company follows straight-line method in depreciating its fixed assets at the following annual rates:-

Furniture & Fixtures	15%
Motor vehicles	25%
Computers	20 - 33.33%
Leasehold improvements & office equipment	15%

d) Recognition of income

1. Income resulting from investments in companies' capital wherein the company owns between 20% to 50% of their capitals is accounted for at the equity method after being extracted from the concerned audited financial statements.
2. Income resulting from investments in companies' capital wherein the company owns less than 20% of their capitals is computed and accounted for when distribution approved by the concerned parties.

e) **Intangible assets – Goodwill**

Goodwill represents the difference between the cost of business acquired and the aggregate of the fair values of their identifiable net assets at the date of acquisition. Goodwill arising on acquisitions is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

f) **General & Administrative expenses**

General and administrative expenses are loaded with the salaries of the company's management and all the related costs in addition to the depreciation of fixed assets and other costs but not related to operations.

g) **Staff entitlements**

- Staff entitlements such as end of service indemnity are computed and accounted for in accordance with the Saudi labour law.
- Air tickets and vacations are computed and accounted for in accordance with employment contracts.

h) **Statutory reserve**

In accordance with the company's regulations and articles of association, 10% of the net profit is annually appropriated to form a statutory reserve. The company's ordinary general assembly can cease such appropriation when such reserve reaches 50% of its capital.

i) **Zakat provision**

- Zakat provision is computed each financial year in accordance with the zakat regulations of Saudi Arabia.
- Zakat provision is accounted for at the end of each fiscal year in the statement of income, any zakat variances are dealt with in the year the final zakat assessments are issued.

j) **Foreign currency transaction**

Transactions in foreign currencies during the year are converted into Saudi Riyal at the rates of exchange ruling on the date of transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Saudi Riyals at the exchange rate ruling on that date. Gains or losses are accounted to relevant heads of statements of income.

4. **INVESTMENTS IN ASSOCIATED COMPANIES**

This item consists of the following:-

	<u>2008</u>	<u>2007</u>
	S.R.	S.R.
Investment cost in Al Obeikan Glass Company		
A Saudi joint stock company closed in percentage of 40%	40,000,000	20,000,000
Company's share from net losses in associated company	<u>(1,370,320)</u>	<u>(975,795)</u>
Total	<u><u>38,629,680</u></u>	<u><u>19,024,205</u></u>

5. INVESTMENTS IN COMPANIES CAPITAL AFTER PROVISION

a) This item consists of the following:-

	Associated	2008	2007
	percentage %	S.R.	S.R.
Arabian Industrial Fibers Co.(Ibn rushd)	0.62%	53,160,000	53,160,000
Al Salam Aircraft Co. Ltd.	10.00%	19,940,000	19,940,000
Energy Industries and Services Company	3.38%	67,499,990	67,499,990
Gulf Salt Co. Ltd.	11.18%	5,032,000	5,032,000
NPS Bahrain	20.00%	165,997,136	---
Investments in companies capital before provision		311,629,126	145,631,990
Provision for diminution in investments value (Ibn rushd)		<u>(17,000,000)</u>	<u>(17,000,000)</u>
Investments in companies capital after provision		<u>294,629,126</u>	<u>128,631,990</u>

b) The Company's share in the accumulated losses of Arabian Industrial Fibers Co.(Ibn rushd) as of December 31, 2008 amounted to SR. 27.88 Million (as at December 31, 2007 amounted to SR. 20.57 Million). The Company's management is of the opinion that the provision made for such losses amounting to (SR. 17 Million) is adequate, this is based on the information from the management of Arabian Industrial Fibers Co.(Ibn rushd) and its expectations for the foreseeable future of Arabian Industrial Fibers Co.(Ibn rushd)

6. NET BOOK VALUE OF FIXED ASSETS

Description	Furniture & Fixtures	Motor Vehicles	Computers	Leasehold Improvements & office equipment	Total
Cost	S.R.	S.R.	S.R.	S.R.	S.R.
As of 31/12/2007	153,195	27,500	59,562	233,949	474,206
Additions	780	49,200	22,519	450	72,949
Disposals	---	(27,500)	---	---	(27,500)
Balance as of 31/12/2008	153,975	49,200	82,081	234,399	519,655
Accumulated depreciation					
As of 31/12/2007	151,490	27,500	42,402	231,345	452,737
Additions	952	10,250	10,978	1,847	24,027
Disposals	---	(27,500)	---	---	(27,500)
Balance as of 31/12/2008	152,442	10,250	53,380	233,192	449,264
Net book value					
As of 31/12/2007	1,705	---	17,160	2,604	21,469
As of 31/12/2008	1,533	38,950	28,701	1,207	70,391

7. INTANGIBLE ASSETS

a) This item consists of the following:-

	<u>2008</u>	<u>2007</u>
	S.R.	S.R.
Al Obeikan Glass Company (b)	32,000,000	32,000,000
NPS Bahrain (c)	<u>209,504,755</u>	---
Total	<u><u>241,504,755</u></u>	<u><u>32,000,000</u></u>

b) Al Obeikan Glass Company

This balance represents what was actually paid by the company (SR. 4 for each extra share) exceeding its share in the paid up capital amounted to SR. 40,000,000.

c) NPS Bahrain

During the fiscal year 2008, the company had purchased 20% of NPS Bahrain capital which had amounted to US\$ 100,000,000 (equivalent to SR. 375,000,000) in addition to the consulting, legal and study costs amounted to SR. 501,891.

Such investments at the date of acquisition had been valued as under:

	<u>S.R.</u>	<u>S.R.</u>
Investment purchasing cost		
20% of the capital	375,000,000	
Cost of consulting, legal and study	<u>501,891</u>	
Total acquisition cost		375,501,891
The book value at the acquisition date as per the financial statements 829,985,682 X 20%		<u>(165,997,136)</u>
Goodwill resulting from acquisition		<u><u>209,504,755</u></u>

8. ACCOUNTS PAYABLE

The current balance of SR. 187,500,000 represents the remaining amount of the investment in NPS Bahrain and is disclosed under investment in other companies capital for the sake of the selling partner Ahmed Ben Mohamed Alsanee (in NPS Bahrain)

9. ZAKAT PROVISION

a) Basic elements of zakat base consist of:-

	<u>2008</u>	<u>2007</u>
	S.R.	S.R.
Net income	19,905,073	16,042,883
Non-current assets	(709,845,478)	(220,169,533)
Non-current liabilities	17,313,238	17,210,801
Owners' equity	<u>751,580,934</u>	<u>204,500,000</u>
Zakat base	<u>78,953,767</u>	<u>17,584,151</u>
Zakat @ 2.5%	<u><u>1,973,844</u></u>	<u><u>439,604</u></u>

b) Movement of zakat provision during the year

	<u>2008</u>	<u>2007</u>
	S.R.	S.R.
Balance brought forward	438,595	2,023,766
Differences	14,721	588,835
Paid during the year	(453,316)	(2,613,610)
Provision for the year	<u>1,973,844</u>	<u>439,604</u>
Balance carried forward	<u><u>1,973,844</u></u>	<u><u>438,595</u></u>

- c) The company obtained final zakat assessment for the year ended December 31, 2006, it has also filed the financial statements and zakat returns for the year ended December 31, 2007 to the DZIT. No final zakat assessment is received as yet.

10. GENERAL & ADMINISTRATIVE EXPENSES

	<u>2008</u>	<u>2007</u>
	S.R.	S.R.
Salaries & Wages	968,399	907,893
Investments companies expenses	1,937,382	223,271
Board of directors & Managing partners meeting	449,000	483,000
Professional fees	714,565	512,500
Printing & Publishing of financial statements	102,909	102,403
Social insurance	67,239	66,207
Rent	95,632	95,632
Air tickets & Vacations	101,101	70,339
Travel & Transportation	43,816	37,344
End of service indemnity	102,437	80,888
Shares registration fees	399,397	180,000
Dues & Subscription	91,401	23,146
Post & Telephone	28,160	21,305
Depreciations	24,027	13,388
Miscellaneous	110,873	66,206
Total	<u><u>5,236,338</u></u>	<u><u>2,883,522</u></u>

11. INCOME PER SHARE

The income per share as at December 31, 2008 is computed on the basis of the No. of shares 43,200,000

12. DIVIDENDS

Dividends are stated in the year after being approved by the company's general assembly.

13. APPROVAL OF FINANCIAL STATEMENTS

The financial statements had been approved by the board of directors on February 21, 2009.

14. FINANCIAL INSTRUMENTS

Financial instruments carried on the consolidated balance sheet include cash and bank balances, Islamic Murabaha and other assets, other liabilities, accrued expenses and other commitments.

Credit risk is the risk that one party will fail to discharge on obligation and will cause the other party to incur a financial loss. The company has no significant concentration of credit risks. Cash and bank balances are placed with national banks with sound credit ratings.

Interest rate risk is the exposure to various risks associated with the effect of fluctuations in the prevailing interest rates on the company's financial position and cash flows. The company has no significant interest-bearing assets at December 31, 2008.

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 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 company'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 company's transactions are principally in Saudi Riyals, United States Dollars, British Pounds and Euro and Bahraini Dinar. Management watching changes in foreign exchange rates and believes that the currency risk is not materials.

15. GENERAL

- a) The comparative figures are regrouped to bring them in line with current year classification.
- b) The figures of the financial statements are rounded to the nearest Saudi Riyal.

