

Saudi Advanced Industries Co.
(Saudi joint stock company)
Financial Statements
and Auditors' Report
for the year ended December 31, 2006

**Associated accountants
Accountants & Consultants
Member of BDO International**

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Table of Contents

	<u>Page</u>
Auditors' Report	1
Balance Sheet as of December 31, 2006	2
Statement of Income for the year ended December 31, 2006	3
Statement of Cash Flows for the year ended December 31, 2006	4
Statement of Changes in Shareholders' Equity for the year ended December 31, 2006	5
Notes to the Financial Statements	6 - 11



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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, 2006, and the related statements of income, changes in shareholder' equity and cash flows for the year then ended, and the notes from 1 to 14, 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.

As discussed in note (4) to the financial statements, the management of the Company has provided a provision to meet the decline in the value of one of its investments. The Management believes that such a provision is sufficient to mitigate the decline in the said investment value.

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, 2006, 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, 2007



Associated Accountants

Hamud Al-Rubian

Certified Accountant-License No. 222)

Saudi Advanced Industries Co.
Balance Sheet
as of December 31, 2006

Assets	Notes	2006	2005
Current assets:			
Cash on hand and at banks		1,170,077	1,946,978
Investment in trading securities	2&3	----	11,615,593
Other receivables & prepayments		115,233	86,377
Total current assets		1,285,310	13,648,948
Investments in equity of companies	2&4	125,631,990	72,900,000
Investment in available-for-sale securities	2&5	39,699,000	16,040,000
Property & equipment, net	2&6	18,628	24,377
Projects under progress		1,683,858	----
Total assets		168,318,786	102,613,325
Liabilities & Shareholders' Equity			
Current Liabilities:			
Due to related party	7	41,500,000	----
Accounts payable		909,804	683,590
Other payables & accruals	8	50,609	82,449
Accrued Zakat	2&9	2,023,766	2,028,938
Total current liabilities		44,484,179	2,794,977
Provision for end of service benefits	2&10	201,541	275,232
Total liabilities		44,685,720	3,070,209
Shareholders' Equity:			
Share capital		108,000,000	108,000,000
Accumulated losses		(8,025,934)	(8,456,884)
Unrealized gain on holding available-for-sale securities		23,659,000	----
Total shareholders' equity		123,633,066	99,543,116
Total liabilities and shareholders' equity		168,318,786	102,613,325

The accompanying notes from 1 to 14 are an integral part of this financial statement

Saudi Advanced Industries Co.
Statement of Income
for the year ended December 31, 2006

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
Income from sale of trading securities	2	1,464,261	4,067,524
Dividends received from investee companies		900,000	1,260,000
Income from other investments		----	339,086
Total income		<u>2,364,261</u>	<u>5,666,610</u>
General & administrative expenses	2&11	(1,921,014)	(1,894,889)
Other income		72,097	----
Unrealized losses on holding trading securities	3	----	(249,490)
Income before Zakat		<u>515,344</u>	<u>3,522,231</u>
Provision for Zakat	2&9	(84,394)	(89,566)
Net income for the year		<u>430,950</u>	<u>3,432,665</u>
Basic earnings per share		.040	.318

The accompanying notes from 1 to 14 are an integral part of this financial statement

Saudi Advanced Industries Co.
Statement of Cash Flows
for the year ended December 31, 2006

	2006	2005
Cash Flows from Operating Activities:		
Net income for the year	430,950	3,432,665
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation & amortization	9,519	9,973
Provision for end of service benefits	(73,691)	40,373
Unrealized losses on holding equity securities	----	249,490
Accrued Zakat	(5,172)	222,097
Prior year adjustments	-----	(229,426)
	<u>361,606</u>	<u>3,725,172</u>
Changes in operating assets and liabilities:		
Investment in trading securities	11,615,593	(11,865,083)
Other receivables & prepayments	(28,856)	363,152
Accounts payable	226,214	222,974
Other payables and accruals	(31,840)	20,405
Net cash flows provided by (used in) operating activities	<u>12,142,717</u>	<u>(7,533,380)</u>
Cash Flows from Investing Activities:		
Additions to the equipments	(3,770)	(11,217)
Change in investments in equity of companies, net	(52,731,990)	9,319,711
Projects under progress	(1,683,858)	----
Net cash (used in) provided by investing activities	<u>(54,419,618)</u>	<u>9,308,494</u>
Cash flows from financing activities:		
Proceeds from related party	41,500,000	----
Cash provided by financing activities	<u>41,500,000</u>	<u>----</u>
Net cash flows (used) generated during the year	(776,901)	1,775,114
Cash and bank balances at the beginning of year	1,946,978	171,864
Cash and bank balances at the end of year	<u>1,170,077</u>	<u>1,946,978</u>

The accompanying notes from 1 to 14 are an integral part of this financial statement

Saudi Advanced Industries Co.
Statement of Changes in Shareholders' Equity
for the year ended December 31, 2006
(Saudi Rivals)

	<u>Share Capital</u>	<u>Accumulated losses</u>
<u>2005</u>		
Balance at January 1, 2005	108,000,000	(11,660,123)
Prior year adjustments	----	(229,426)
Net income for the year	----	3,432,665
<u>2006</u>		
Balance at December 31, 2005	<u>108,000,000</u>	<u>(8,456,884)</u>
Net income for the year	----	430,950
Balance at December 31, 2006	<u>108,000,000</u>	<u>(8,025,934)</u>

The accompanying notes from 1 to 14 an integral part of this financial statement

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 transfer advanced industrial technologies to the Kingdom of Saudi Arabia through participation in economic offset programs and other Industrial projects.
- C- The subscribed and paid up capital amounted to SAR. 108 millions divided into 10,800,000 common shares, with a par value of SAR. 10 each.

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:

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.

Securities are classified as trading securities if they were purchased for the trading purposes in the short-term, and are valued in the balance sheet on the basis of its fair value. Unrealized gains or (losses) are charged in the income statement.

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.

2- Significant accounting policies (continued):

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.

3- Investments in trading securities:

	<u>2006</u>	<u>2005</u>
Investments in trading securities	----	11,865,083
Unrealized losses on holding trading securities	----	(249,490)
	<u>----</u>	<u>11,615,593</u>

4- Investments in equity of companies :

	<u>Ownership percentage</u>	<u>2006</u>	<u>2005</u>
Arabian Industrial Fibers Co. (Ibn Rushd)	1.5%	53,160,000	53,160,000
Al Salam Aircraft Co. Ltd.	10%	16,940,000	16,940,000
Industrialization and Energy Services Co.	3.38%	67,499,990	18,000,000
Gulf Salt Co. Ltd.	11.18%	5,032,000	1,800,000
Total investments		<u>142,631,990</u>	<u>89,900,000</u>
Provision for decline in investment's value (Ibn Rushd)		<u>(17,000,000)</u>	<u>(17,000,000)</u>
		<u>125,631,990</u>	<u>72,900,000</u>

As the investee Company (Ibn Rushd) has continuously realized operating losses since its inception and until 2006, the Company's share of losses amounted to SAR. 39,294,825, accordingly the management of the Company has provided a provision of SR. 17 millions. 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.

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 movement in the investment account:

	<u>2006</u>	<u>2005</u>
Carrying value at the beginning of year	16,040,000	----
Acquisition cost	----	16,040,000
Unrealized gain	23,659,000	----
Balance as at December 31, 2006	<u>39,699,000</u>	<u>16,040,000</u>

6- Property and equipment:

Property and equipment are comprised of the following:

<u>Costs</u>	<u>Opening balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance as at December 31, 2006</u>
Computers & programs	59,652	3,770	----	63,422
Vehicles	27,500	----	----	27,500
Office tools	102,139	----	----	102,139
Leasehold improvements	150,000	----	----	150,000
Office furniture	153,195	----	----	153,195
Total	<u>492,486</u>	<u>3,770</u>	<u>----</u>	<u>496,256</u>

Accumulated depreciation:

Computers & programs	(47,494)	(5,566)	----	(53,060)
Vehicles	(27,499)	----	----	(27,499)
Office tools	(93,540)	(2,997)	----	(96,537)
Leasehold improvements	(149,998)	----	----	(149,998)
Office furniture	(149,578)	(956)	----	(150,534)
Total	<u>(468,109)</u>	<u>(9,519)</u>	<u>----</u>	<u>(477,628)</u>
Book value	<u>24,377</u>			<u>18,628</u>

7- Due to related party:

A finance agreement has been signed 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 the Company as a result of this agreement except for the usual finance fees.

8- Other payables & accruals:

	<u>2006</u>	<u>2005</u>
Accrued expenses	24,310	32,809
Accrued tickets and vacations	26,299	49,640
	<u>50,609</u>	<u>82,449</u>

9- Provision for Zakat:

a) Zakat provision is comprised of the followings: -

	<u>2006</u>	<u>2005</u>
Share capital	108,000,000	108,000,000
Provisions	19,140,913	19,329,094
Income for the year before Zakat	515,344	3,522,231
Due to related party	41,500,000	----
	<u>169,156,257</u>	<u>130,851,325</u>
Less:		
Property and equipment	(18,627)	(24,377)
Investments	(158,671,990)	(117,805,083)
Projects under progress	(1,683,858)	----
Adjusted accumulated losses	(5,406,019)	(11,660,123)
Prior year adjustments	----	(229,426)
	<u>3,375,763</u>	<u>1,132,316</u>
1- Zakat base-shareholders' equity	3,375,763	1,132,316
2- Zakat base-adjusted net income	515,344	3,582,668

b) Movements in Zakat provision are summarized as follows:

	<u>2006</u>	<u>2005</u>
Balance at the beginning of year	2,028,938	1,806,841
Payments during the year	(89,566)	(2,469)
Additions during the year	84,394	224,566
	<u>2,023,766</u>	<u>2,028,938</u>

c) Status of Zakat assessment:

- The Company has obtained the temporary Zakat certificate for the year of 1999.
- The Company has filed an objection with department of Zakat and income tax (DZIT) regarding the Zakat assessment for the years 2000 up to 2005G, which was rejected by DZIT. As a result of, a claim of SAR, 2,549,163 was asserted against the Company with respect to the accrued Zakat.

10- Provision for end of service benefits:

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

	<u>2006</u>	<u>2005</u>
Balance at the beginning of year	275,232	234,859
Paid during the year	(108,146)	----
Provided during the year	34,455	40,373
Balance as at the end of year	<u>201,541</u>	<u>275,232</u>

11- General and administrative expenses:

	<u>2006</u>	<u>2005</u>
Salaries, wages and benefits	573,819	760,585
Expenses of investee companies	232,869	226,763
Board of directors meeting	486,500	224,000
Professional fees	57,798	152,000
Financial statements' publishing expenses	89,158	96,265
Social insurance	42,901	61,644
Rent	73,207	70,931
Vacation & tickets	67,177	62,582
Travel & transportation	25,380	57,740
End of service benefits	34,455	40,374
Stock registration fees	60,000	60,000
Subscription fees	13,686	18,529
Post & telephone	21,123	12,657
Depreciations	9,519	9,973
Miscellaneous	133,422	40,846
	<u>1,921,014</u>	<u>1,894,889</u>

12- Contingent liabilities:

The Company has an outstanding contingent liabilities as at December 31, 2006 related to corporate guarantees issued by the Company against the loans of Saudi Industrial Development Fund, Commercial bank loans, and the investee companies which are amounted to SAR 50,812,500 (SAR. 56,731,537 for 2005).

13- 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. 486,500 (SAR. 224,000 for 2005).

14- Subsequent event:

Subsequent to the balance sheet date, an extraordinary general meeting approved the Company's share capital increase from 108 million to 432 millions by its meeting dated 28 Dhul Hijjah 1427H (corresponding to January 17, 2007G). The share capital increase is to be conducted through subscription of the outstanding shareholders as the date of extraordinary general meeting into the increase shares by enabling each outstanding shareholder to subscribe into 3 shares against each owned share as the date of subscription. The capital increase shares shall be submitted for subscription by the value of SAR. 20, which represents SAR. 10 as par value and the remainder (excess of par) of SAR. 10 as premium (additional paid-in capital from common shares).