Yanbu Cement Company
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

Ernst & Young

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(A Saudi Joint Stock Company)

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AUDITORS' REPORT TO THE SHAREHOLDERS OF YANBU CEMENT COMPANY (A Saudi Joint Stock Company)

Scope of audit

We have audited the accompanying consolidated balance sheet of Yanbu Cement Company (A Saudi Joint Stock Company) ("the Company") and its subsidiary (" the group")as at 31 December 2011 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's board of directors and have been prepared by them in accordance with Article (123) of the Companies Regulations and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified Opinion

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

1). Present fairly, in all material respects, the financial position of the group as at 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.

2). Comply with the requirements of the Regulations for Companies and the company's bylaws in so far as they affect the preparation and presentation of the financial statements.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
License No. 356

24 Safar 1433 H
18 January 2012

Jeddah

Yanbu Cement Company (A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET
As at 31 December 2011

	Notes	*2011* *SR*	*2010* *SR*
ASSETS			
CURRENT ASSETS			
Bank balances and cash		**558,359,361**	320,023,483
Investments in mutual fund		-	17,087
Accounts receivable and other assets	3	**192,226,533**	169,841,203
Inventories	4	**304,547,888**	318,858,055
TOTAL CURRENT ASSETS		**1,055,133,782**	808,739,828
NON-CURRENT ASSETS			
Property and equipment, net	5	**3,504,199,027**	3,283,566,785
TOTAL ASSETS		**4,559,332,809**	4,092,306,613
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bank facilities - current portion	7	**243,375,828**	200,431,448
Bank overdraft		**1,923,460**	1,019,858
Trade Accounts payable		**148,530,358**	206,278,230
Dividends payable		**55,650,338**	56,261,642
Zakat provision	15	**19,137,669**	12,417,296
Accrued expenses and other liabilities	8	**120,622,906**	144,463,190
TOTAL CURRENT LIABILITIES		**589,240,559**	620,871,664
NON-CURRENT LIABILITIES			
Bank facilities	7	**1,038,764,062**	870,601,385
Employees' terminal benefits		**56,649,071**	48,619,015
TOTAL NON-CURRENT LIABILITIES		**1,095,413,133**	919,220,400
TOTAL LIABILITIES		**1,684,653,692**	1,540,092,064
SHAREHOLDERS' EQUITY			
Authorized and fully paid capital	9	**1,050,000,000**	1,050,000,000
Statutory reserve	10	**525,000,000**	525,000,000
Expansion reserve	11	**741,879,357**	523,715,604
Retained earnings		**529,279,487**	430,363,753
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS IN PARENT COMPANY		**2,846,158,844**	2,529,079,357
Minority interest		**28,520,273**	23,135,192
TOTAL SHAREHOLDERS' EQUITY		**2,874,679,117**	2,552,214,549
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**4,559,332,809**	4,092,306,613

The attached notes 1 to 20 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Year Ended 31 December 2011

	Notes	*2011* *SR*	*2010* *SR*
Net sales		**1,132,267,406**	895,497,192
Cost of sales		**(576,760,131)**	(430,726,999)
GROSS PROFIT		**555,507,275**	464,770,193
Selling and distribution expenses	12	**(10,985,575)**	(10,110,214)
General and administration expenses	13	**(20,215,652)**	(15,880,644)
NET INCOME FROM MAIN OPERATIONS		**524,306,048**	438,779,335
Financial charges		**(298,626)**	(73,672)
Other income	14	**29,851,041**	9,184,115
NET INCOME BEFORE ZAKAT AND MINORITY INTEREST		**553,858,463**	447,889,778
Zakat	15	**(19,193,895)**	(12,762,023)
NET INCOME BEFORE MINORITY INTEREST		**534,664,568**	435,127,755
Minority interest		**(5,385,081)**	(4,764,002)
NET INCOME		**529,279,487**	430,363,753
EARNING PER SHARE	20		
FROM MAIN OPERATIONS		**4,99**	4,18
FROM NET PROFIT		**5,04**	4,10

The attached notes 1 to 20 form part of these consolidated financial statements.

Yanbu Cement Company (A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2011

	2011 *SR*	*2010* *SR*
OPERATING ACTIVITIES		
Net income before zakat and minority Interest	**553,858,463**	447,889,778
Adjustments for:		
Depreciation	**117,790,626**	100,356,717
Amortization	**-**	166,571
Gain on disposal of property and equipment	**(8,650)**	(193,735)
Employees terminal benefits, net	**8,030,056**	7,965,058
	679,670,495	556,184,389
Change in operating assets and liabilities:		
Accounts receivable and other assets	**(22,385,330)**	(25,416,578)
Inventories, net	**14,310,167**	(31,813,316)
Accounts payable	**(57,747,872)**	164,009,409
Accrued expenses and other liabilities	**(23,840,284)**	27,545,970
Zakat paid	**(12,473,522)**	(11,877,990)
Net cash from operating activities	**577,533,654**	678,631,884
INVESTING ACTIVITIES		
Purchase of property and equipment	**(338,422,868)**	(1,279,524,461)
Proceeds from disposal of property and equipment	**8,650**	193,735
Net cash used in investing activities	**(338,414,218)**	(1,279,330,726)
FINANCING ACTIVITIES		
Bank facilities	**412,901,906**	952,601,385
Settlement of bank facilities	**(201,794,849)**	(4,659,516)
Bank overdraft	**903,602**	(3,682,481)
Dividends paid to shareholders	**(210,611,304)**	(416,036,128)
Board of directors' fees	**(2,200,000)**	(2,200,000)
Net cash used in financing activities	**(800,645)**	(626,023,260)
INCREASE IN CASH AND CASH EQUIVALENTS	**238,318,791**	25,324,418
Cash and Cash Equivalents at the beginning of the year (Note 2)	**320,040,570**	294,716,152
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 2)	**558,359,361**	320,040,570
SUPPLIMENT NON-CASH INFORMATION		
Retained earnings transferred to provision for extension	**218,163,753**	164,861,054

The attached notes 1 to 20 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
Year Ended 31 December 2011

	Notes	*2011* *SR*	*2010* *SR*
EQUITY ATRIBUTABLE TO SHAREHOLDERS' IN PARENT COMPANY			
CAPITAL	9	**1,050,000,000**	1,050,000,000
STATUTORY RESERVE	10	**525,000,000**	525,000,000
EXPANSION RESERVE	11		
Balance at the beginning of the year		**523,715,604**	358,854,550
Transferred from retained earnings		**218,163,753**	164,861,054
Balance at the end of the year		**741,879,357**	523,715,604
RETAINED EARNINGS			
Balance at the beginning of the year		**430,363,753**	482,061,054
Net profit for the year		**529,279,487**	430,363,753
Dividends		**(210,000,000)**	(315,000,000)
Transferred to expansion reserve	11	**(218,163,753)**	(164,861,054)
Board of Director's fees		**(2,200,000)**	(2,200,000)
Balance at the end of the year		**529,279,487**	430,363,753
TOTAL EQUITY ATRIBITABLE TO SHAREHOLDERS' IN PARENT COMPANY		**2,846,158,844**	2,529,079,357
MINORITY INTEREST			
Balance at the beginning of the year		**23,135,192**	18,371,190
Minority interests share in the profit for the year		**5,385,081**	4,764,002
Balance at the end of the year		**28,520,273**	23,135,192
TOTAL SHAREHOLDERS' EQUITY		**2,874,679,117**	2,552,214,549

The attached notes 1 to 20 form part of these consolidated financial statements.

1. ACTIVITIES

Yanbu Cement Company (a Saudi Joint Stock Company) is incorporated per Royal Decree No. M/10 of 24/3/1397H based on the Council of Ministers Resolution No. 1074 of 10/8/1394H, and registered in Yanbu City under Commercial Registration No. 4700000233 of 21/11/1398H pursuant to Ministry of Industry and Electricity Resolution No. 67/S of 17/3/1396H.

The Company is engaged in the manufacturing of ordinary Portland cement, resistant cement and pozolanic cement.

Construction, engineering works and equipments supply relating to Production Line 5 have been concluded by contractors. The Company has started production for testing during the fourth quarter of this year and it is expected for final submission in January 2012.

The consolidated financial statements comprise the accounts of the parent company, Yanbu Cement Company and its subsidiary as detailed below:

Company's Name	Country of Incorporation	Shareholding
Yanbu Saudi Kuwaiti Paper Products Company Ltd.	Kingdom of Saudi Arabia	60%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted in preparing the consolidated financial statements are as follows:

Basis of consolidation
The consolidated financial statements comprise the financial statements of the parent company and it's subsidiary, as stated in Note (1) after eliminating all inter-company transactions and balances.

Accounting convention
The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale investments.

Revenue recognition
Sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably, as the invoice value of goods supplied by the Company during the year, net of trade and quantity discount.

Accounts receivable
Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Use of estimate
The preparation of consolidated financial statements in conformity with generally accepted principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period of the consolidated financial statements.

Inventories
Raw material inventories, work-in-progress and spare parts are stated at the lower of cost or net realizable value. Cost of raw materials and spare parts is determined using the moving average method. The cost of work-in-progress includes direct materials, direct labor and any related overheads. Slow moving and obsolete spare parts are provided for and stated at net book value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and depreciated on a straight-line basis over the estimated useful lives of the assets. Subsidiary's paper production factory buildings, machinery and equipment are depreciated on the number of production units basis.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset are written down to their recoverable amount, being the higher of their fair value les costs to sell and their value in use.

Expenditure for repair and maintenance is charged to income. Improvements that increase the value materially or extend the life of the related assets are capitalized.

Impairment and uncollectibility of financial assets
Financial assets are assessed for indicators of impairment at each balance sheet date. If any such indicators exist the impairment is taken to consolidated statement of income.

a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement;
b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

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

Deferred charges
Deferred charges are amortized over the estimated useful life of 5 years.

Zakat
According to Zakat financial accounting standard, Zakat provision for individual fiscal periods is measured and recognized in accordance with the provisions and rules of Saudi Arabian Zakat Regulations on accrual basis. The provision is separately charged to the consolidated statement of income.

Employee's terminal benefits
Provision is made for amounts payable under the Saudi Arabian Labour Law applicable to employees' accumulated periods of service at the balance sheet date.

Cash and cash equivalents
For the statement of cash flow purposes cash and cash equivalents separately shown in the consolidated balance sheet comprise bank balances, cash in hand, time deposits and investments in mutual fund readily convertible to cash and has a maturity of 3 months or less as at the purchase date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Selling, distribution, general and administration expenses
Selling and distribution expenses are those specifically related to salesmen and other incidental selling expenses. All other expenses are classified as general and administration expenses.

Foreign currencies transactions
Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Borrowing cost
Borrowing cost is recognized on an accrual basis and charges to the statement of income.

3. ACCOUNTS RECEIVABLE AND OTHER ASSETS

Accounts receivable and other assets comprise of the following as at 31 December:

	2011 *SR*	*2010* *SR*
Trade accounts receivable (*)	**169,714,717**	149,040,834
Employees' advances (**)	**9,108,488**	7,513,720
Prepaid expenses	**5,174,438**	4,235,959
Deposits and other receivables	**6,815,512**	6,957,837
Margins on letters of guarantee (Note 16)	**1,413,378**	1,037,500
Margins on letters of credit (Note 16)	**-**	1,055,353
	192,226,533	169,841,203

(*) Accounts receivable are secured by letters of guarantees and documentary letters of credit. Based on past experience, unimpaired receivables are expected to be fully recovered. The largest five clients account for 79% of the Company's outstanding receivables (78% as at 31 December 2010).

(**) Employees' advances are secured by the end of the service benefits.

As at 31 December, the ageing of unimpaired receivables are as follows:

	Total SR	*< 30 days SR*	*< 60 days SR*	*< 90 days SR*	*< 120 days SR*	*< 180 days SR*	*> 180 days SR*
2011	**169,714,717**	**58,536,779**	**44,951,056**	**41,946,491**	**8,961,974**	**12,339,532**	**2,978,885**
2010	149,040,834	45,645,701	32,096,337	31,185,970	7,252,554	9,198,384	23,661,888

4. INVENTORIES

Inventories are comprise following as at 31 December:

	2011 *SR*	*2010* *SR*
Spare parts not for sale, net	**162,209,772**	162,499,326
Work-in-progress	**38,376,803**	89,402,211
Raw materials	**82,698,897**	49,197,163
Packaging materials	**14,648,544**	13,879,418
Oil and fuel	**6,329,892**	3,495,132
Other materials	**283,980**	384,805
	304,547,888	318,858,055

5. PROPERTY AND EQUIPMENT, NET

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Factory buildings	25 years
Paper factory production buildings	30 years
Buildings and other constructions	40 years
Berth	20 years
Machinery and equipment	25 years
Paper factory machinery and equipment	Production units
Vehicles and trucks	4 -6.67 years
Furniture and other assets	4 - 6.67 years

5. PROPERTY AND EQUIPMENT, NET (continued)

Details of property and equipment as at 31 December are as follows:

Description	*Land* SR	*Factory Buildings* SR	*Paper factory buildings* SR	*Buildings and other constructions* SR	*Berth* SR	*Machinery and equipment* SR	*Paper factory machinery and equipment* SR	*Vehicles and trucks* SR	*Furniture and other assets* SR	*Works in progress* SR	*Total 2011* SR	*Total 2010* SR
Cost:												
Beginning of the year	4,805,116	672,550,263	20,361,860	64,201,088	16,740,608	2,516,349,713	21,619,728	53,972,015	15,774,598	1,949,671,202	**5,336,046,191**	4,068,317,115
Additions	-	-	-	722,500	-	11,767,753	384,865	56,431,728	3,920,826	265,195,196	**338,422,868**	1,279,524,461
Disposals	-	-	-	-	-	-	-	-	(1,236,176)	-	**(1,236,176)**	(11,795,385)
Transfer	-	-	-	64,030,305	-	273,031,926	21,637,517	-	-	(358,699,748)	**-**	-
At the end of the year	4,805,116	672,550,263	20,361,860	128,953,893	16,740,608	2,801,149,392	43,642,110	110,403,743	18,459,248	1,856,166,650	**5,673,232,883**	5,336,046,191
Depreciation:												
Beginning of the year	-	465,316,506	3,302,468	22,755,092	16,740,608	1,485,640,184	3,574,144	45,858,442	9,291,962	-	**2,052,479,406**	1,963,918,074
Charge for the year	-	13,973,120	678,729	1,401,482	-	88,765,227	1,451,720	8,347,298	3,173,050	-	**117,790,626**	100,356,717
Disposals	-	-	-	-	-	-	-	-	(1,236,176)	-	**(1,236,176)**	(11,795,385)
At the end of the year	-	**479,289,626**	**3,981,197**	**24,156,574**	**16,740,608**	**1,574,405,411**	**5,025,864**	**54,205,740**	**11,228,836**	-	**2,169,033,856**	2,052,479,406
Net book value as at 31 December 2011	**4,805,116**	**193,260,637**	**16,380,663**	**104,797,319**	**-**	**1,226,743,981**	**38,616,246**	**56,198,003**	**7,230,412**	**1,856,166,650**	**3,504,199,027**	
Net book value as at 31 December 2010	4,805,116	207,233,757	17,059,392	41,445,996	-	1,030,709,529	18,045,584	8,113,573	6,482,636	1,949,671,202		3,283,566,785

All property and equipment of fifth production line are mortgaged to Saudi Industrial Development Fund against long term loan from SIDF (note 7).

5. PROPERTY AND EQUIPMENT, NET (continued)

Depreciation charge for the years ended 31 December is allocated as follows:

	2011 *SR*	*2010* *SR*
Cost of production	**111,031,200**	99,021,182
Selling and distribution expenses (Note 12)	**770,621**	757,102
General and administration expenses (Note 13)	**616,215**	578,433
Work in progress	**6,759,426**	-
	117,790,626	100,356,717

6. DEFERRED CHARGES, NET

Deferred charges are comprised of the following as at 31 December:

	2011 *SR*	*2010* *SR*
Deferred charges	-	11,995,624
Less: Accumulated amortization	-	(11,995,624)
	-	-

7. BANK FACILITIES

	2011 *SR*	*2010* *SR*
Bank facilities	**1,282,139,890**	1,071,032,833
Current portion	**(243,375,828)**	(200,431,448)
Non current portion	**1,038,764,062**	870,601,385

Bank facilities comprise:

1) During the year the Yanbu Cement Company obtained bank facilities amounting to SR 291 million (2010: SR 791 million) from a local bank to finance the construction of fifth production line with no guarantee. The payment of installments started from 31 March 2011 with an amount of SR 20 million.

2) During the year Yanbu Saudi Kuwaiti Products Company (a Subsidiary) obtained bank facilities amounting to SR 2 million (2010: SR 11 million) to cover its obligations against construction contractors and to finance local and foreign purchase of the equipment required. The loan is secured by a guarantee from the Parent Company (Yanbu Cement Company Saudi Joint Stock Company). The portion payable in 2012 is classified as current liabilities.

3) On 7 June 2010, Yanbu Cement Company signed a loan agreement with Saudi Industrial Development Fund with total value of SR 300 million after deduction of SR 22.5 million relating to industrial valuation costs for the purpose of financing the construction of the fifth production line. Property and equipments of fifth production line are mortgaged against the loan. During the year, the Company has received the second installment of the loan value amounting to SR 120 million (2010: SR 120 million).

7. BANK FACILITIES (continued)

Loan balance as at 31 December was as follow:

	2011 *SR*	*2010* *SR*
Total loan	**270,000,000**	150,000,000
Less:		
Industrial valuation costs	**(18,281,250)**	(21,093,750)
	251,718,750	128,906,250

8. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables are comprised of the following as at 31 December:

	2011 *SR*	*2010* *SR*
Accrued expenses	**95,080,341**	88,737,610
Other payables	**25,542,565**	55,725,580
	120,622,906	144,463,190

9. CAPITAL

Capital is divided into 105 million shares as at 31 December 2011 (2010: 105 million shares) of SR 10 each.

10. STATUTORY RESERVE

As required by with Saudi Arabian Regulations for Companies, the Company must set aside 10% of its net income each year until it has built up a reserve equal to 50% of the capital. This having been achieved, the Company has resolved to discontinue such transfers. The reserve is not available for distribution.

11. EXPANSION RESERVE

On 9 March 2011 the ordinary General Meeting approved the transfer of remaining balance of retained earnings for the year ended 31 December 2010, after dividend distribution and directors remuneration to expansion reserve. This reserve was created to support future projects of the company.

12. SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses are comprised of the following for the years ended 31 December:

	2011 *SR*	*2010* *SR*
Salaries, wages and other benefits	**7,046,676**	6,364,353
End of service benefits	**1,272,980**	902,899
Advertisement and publicity	**266,686**	476,180
Depreciation (Note 5)	**770,621**	757,102
GOSI	**365,320**	325,338
Fees and subscriptions	**60,922**	70,031
Other	**1,202,370**	1,214,311
	10,985,575	10,110,214

13. GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses are comprised of the following for the years ended 31 December:

	2011 *SR*	*2010* *SR*
Salaries, wages and other benefits	**13,209,487**	10,404,612
End of service benefits	**1,899,650**	11,950,714
Depreciation (Note 5)	**616,215**	578,433
GOSI	**600,499**	549,981
Repair and maintenance	**563,598**	304,899
Amortization	-	166,571
Fee and subscriptions	**652,307**	555,608
Rent	**18,000**	18,000
Other	**2,655,896**	1,351,826
	20,215,652	15,880,644

14. OTHER INCOME

Other income is comprised of the following for the years ended 31 December:

	2011 *SR*	*2010* *SR*
Operational testing revenue	**14,274,925**	-
Gain from sale of properties and equipment	**8,650**	193,735
Provisions no longer required	**6,016,500**	-
Returned custom fees	**6,236,454**	785,700
Scrap sale	-	3,700,000
Exchange difference	**885,170**	462,488
Other	**2,429,342**	4,042,192
	29,851,041	9,184,115

15. ZAKAT

a) Zakat is calculated on basis of individual financial statements of the company and its subsidiaries.

b) The movement in Zakat provision as at 31 December is as follows:

	2011	*2010*
	SR	*SR*
Balance at the beginning of the year	**12,417,296**	11,533,263
Provided during the year	**19,193,895**	12,762,023
Paid during the year	**(12,473,522)**	(11,877,990)
End of the year	**19,137,669**	12,417,296

c) Zakat status

Yanbu Cement Company (A Saudi Joint Stock Company)

Zakat assessment has been agreed with the Department of Zakat and Income Tax up to the year ended 31 December 2004.

The Company has filed its Zakat returns for the years ended 31 December 2005 through 2010. Zakat assessments for the years ended 31 December 2005 through 2010 are not yet raised by the DZIT.

Yanbu Saudi Kuwaiti Paper Products Company - Subsidiary

Zakat assessments for all fiscal years up to 31 December 2008 have been agreed with the DZIT. The Company has filed its Zakat returns for the years ended 31 December 2009 and 2010 but Zakat assessments have not yet been raised by the DZIT.

16. COMMITMENTS AND CONTINGENCIES

As at 31 December 2011 the company has contingencies in the form of letters of guarantee amounting to SR 19,571,652 for which a margin deposit of SR 1,413,378 is paid (2010: SR 59,977,971 for which a margin deposit of SR 1,073,500 was paid) and documentary letters of credit amounting to SR 173,725,137 for which no margin is paid for (2010: SR 481,085,085 for which a margin deposit of SR 1,055,353 was paid).

17. RISK MANAGEMENT

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future profitability. The Company is subject to interest rate risk on its interest bearing assets and liabilities including bank overdraft and facility. The management seeks to limit interest rate risk by monitoring the changes in interest rates.

Liquidity risk
Liquidity risk is the risk that the Company will be unable to meet its commitments associated with the financial liabilities as they arise. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise.

17. RISK MANAGEMENT (continued)

Liquidity risk (continued)
Company's financial liabilities consist of accounts payable, accruals, other payables, bank overdraft and bank facilities - current portion. Substantially, all financial liabilities are expected to be settled within 12 months from balance sheet date and the company expects to have sufficient funds to do so. Non-current portion of bank facilities amounting to SR 1.038 million is expected to be paid within six years from balance sheet date.

Credit risk
Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. Letters of credit or otherwise obtaining letters of guarantee, as appropriate, as security. The five largest customers accounts for 79% of outstanding accounts receivable as at 31 December 2011 (2010: 78%).

With respect to credit risk arising from other financial assets of the Company including cash and cash equivalents and other assets the company's exposure to credit risks arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments.

Currency risk
Currency risk is the risk that the value of financial instrument will fluctuate due to changes in foreign exchange rate. The Company is subject to fluctuations in foreign exchange in the normal course of business. The Company did not undertake significant transactions in currencies other than Saudi Riyal and US Dollar during the year.

18. FAIR VALUES OF FINANCIAL INSTRUMENTS

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. The Company's financial assets consist of cash, cash equivalents, accounts receivable and other assets. Its financial liabilities consist of accounts payable, accruals other payables, bank overdraft and bank facilities. The fair values of financial instruments are not materially different from their carrying values.

19. PRINCIPLE SOURCES OF ESTIMATION UNCERTAINITY

Impairment of accounts receivable
Impairment of accounts receivable an estimate of the collective amount of accounts receivable is made when collection of the full amount is no longer payable. For individually significant amounts this estimations performed on an individual basis. Amounts which are not individually significant, but which are past due are assessed collectively and an allowance applied according to the length of time past due.

Impairment of inventories
Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, and estimate is made of their net realisable value. For individually significant amounts this estimation is performed or an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an allowance applied according to inventory type and the degree of ageing or obsolescence.

20 EARNIGS PER SHARE

Earnings per share from net profit from main operation the year are calculated by dividing net profit from main operations for the year by the weighted average number of shares outstanding during the year (105,000,000 shares). Earnings per share from net profit is calculated by dividing but profit for the year by the weighted average number of shares outstanding during the year (105,000,000) shares.