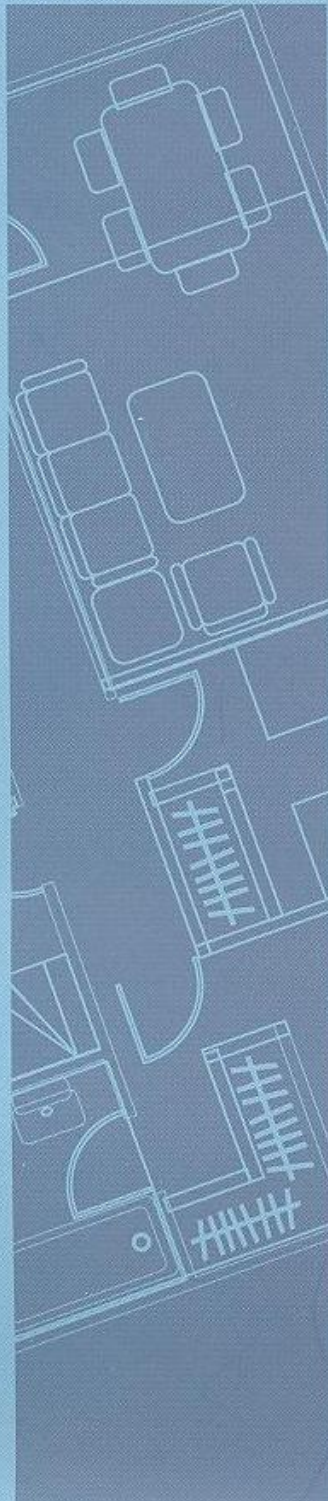


# 30



أسمنت القصيم  
Qassim Cement



## التقرير السنوي الثلاثون

2008



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



أسمنت القصيم  
Qassim Cement



**QASSIM CEMENT COMPANY**  
(Saudi Joint Stock Company)  
**The consolidated Financial Statements**  
**and independent auditors' report**  
For the year ended  
at December 31 , 2008

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### AUDITORS' REPORT

To: **The Shareholders**  
**Qassim Cement Company**  
**Qassim, Saudi Arabia**

We have audited the accompanying consolidated financial statements of **QASSIM CEMENT COMPANY – Saudi joint stock company-** (the Company), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes (1) through (27) which form an integral part of the consolidated financial statements.

The consolidated financial statements as at and for the year ended at December 31, 2007, were audited by another auditor whose report dated 3 Muharram 1429H (corresponding to January 12, 2008G) expressed an unqualified opinion.

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 system 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control system relevant to the entity's preparation and fair presentation of the consolidated 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 system. 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 consolidated financial statements.

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

KPMG Al Fozan & Al Sadhan, a partnership registered in Saudi Arabia  
and a member firm of the KPMG network of independent member firms  
affiliated with KPMG International, a Swiss cooperative.





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

- 1) present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2008 and of its consolidated results of its operations, cash flows and changes in shareholders' equity for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; 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 consolidated financial statements.



Tareq AbdulRahman Al Sadhan  
Licence No. 352



Riyadh on: 27/2/1430H  
Corresponding to: 22/2/2009G

**QASSIM CEMENT COMPANY**  
(Saudi Joint Stock Co.)  
**CONSOLIDATED BALANCE**  
**SHEET**  
**As At December 31, 2008**  
(Saudi Riyals)

| <b>ASSETS</b>                                  |      |                      | 2007                 |
|--|------|----------------------|----------------------|
| <b>Current assets:</b>                         |      |                      | Unconsolidated       |
| Cash and cash equivalents                      | (4)  | 336,278,786          | 459,284,665          |
| Murabha term deposits                          |      | 283,544,412          | 60,936,655           |
| Trading investments                            | (5)  | 7,755,377            | 11,668,771           |
| Accounts receivables                           |      | 51,918,774           | 32,462,182           |
| Due from related parties                       | (6)  | --                   | 41,469,758           |
| Prepayments and other receivables, net         | (7)  | 26,691,579           | 13,626,189           |
| Inventories, net                               | (8)  | 206,840,130          | 128,638,312          |
| <b>Total current assets</b>                    |      | <b>913,029,058</b>   | <b>748,086,532</b>   |
| <b>Non-current assets:</b>                     |      |                      |                      |
| Property, plant and equipments, net            | (9)  | 1,200,211,509        | 1,143,966,024        |
| Capital work in progress                       | (10) | 108,520,979          | 109,648,586          |
| Investment in subsidiary                       |      | --                   | 475,000              |
| Deferred expenses, net                         | (11) | 48,455,977           | 54,222,852           |
| <b>Total non-current assets</b>                |      | <b>1,357,188,465</b> | <b>1,308,312,462</b> |
| <b>Total assets</b>                            |      | <b>2,270,217,523</b> | <b>2,056,398,994</b> |
| <b>LIABILITIES AND EQUITY</b>                  |      |                      |                      |
| <b>Current liabilities:</b>                    |      |                      |                      |
| Trade payables                                 |      | 29,451,170           | 11,235,462           |
| Current portion of long term loans             | (12) | 44,000,000           | 26,000,000           |
| Accrued expenses and other current liabilities | (13) | 208,693,161          | 208,422,228          |
| Dividends                                      |      | 32,502,385           | 25,480,132           |
| Zakat Provision                                | (14) | 14,789,044           | 29,474,356           |
| <b>Total current liabilities</b>               |      | <b>329,435,760</b>   | <b>300,612,178</b>   |
| <b>Non-current liabilities:</b>                |      |                      |                      |
| Long term loans                                | (12) | 199,500,000          | 216,150,000          |
| Employees' end of service benefits             | (15) | 18,387,643           | 16,252,676           |
| <b>Total non-current liabilities</b>           |      | <b>217,887,643</b>   | <b>232,402,676</b>   |
| <b>Total liabilities</b>                       |      | <b>547,323,403</b>   | <b>533,014,854</b>   |
| <b>EQUITY</b>                                  |      |                      |                      |
| <b>Shareholders' equity:</b>                   |      |                      |                      |
| Capital  | (1)  | 450,000,000          | 450,000,000          |
| Statutory reserve                              | (16) | 225,000,000          | 225,000,000          |
| General reserve                                | (17) | 375,996,157          | 375,753,300          |
| Retained earnings                              |      | 672,576,318          | 472,630,840          |
| <b>Total Shareholders' equity</b>              |      | <b>1,723,572,475</b> | <b>1,523,384,140</b> |
| Minority interests                             |      | (678,355)            | --                   |
| <b>Total equity</b>                            |      | <b>1,722,894,120</b> | <b>1,523,384,140</b> |
| <b>Total liabilities and equity</b>            |      | <b>2,270,217,523</b> | <b>2,056,398,994</b> |

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements

**QASSIM CEMENT COMPANY**  
(Saudi Joint Stock Co.)  
**CONSOLIDATED STATEMENT OF**  
**INCOME**  
For the year ended  
**December 31, 2008**  
(Saudi Riyals)

|  | <u>Notes</u> | <u>2008</u><br><u>Consolidated</u> | <u>2007</u><br><u>Unconsolidated</u> |
|--|--------------|------------------------------------|--------------------------------------|
| Sales  |              | 820,210,361                        | 847,004,246                          |
| Cost of sales  |              | (296,783,743)                      | (289,618,338)                        |
| <b>Gross profit</b>  |              | <b>523,426,618</b>                 | <b>557,385,908</b>                   |
| Selling and marketing expenses                                     | (18)         | (5,754,031)                        | (5,748,178)                          |
| General and administrative expenses                                | (19)         | (13,549,213)                       | (13,977,688)                         |
| <b>Operating income</b>  |              | <b>504,123,374</b>                 | <b>537,660,042</b>                   |
| Other income   | (20)         | 29,541,434                         | 29,442,436                           |
| Other expenses   | (21)         | (16,124,548)                       | (3,463,622)                          |
| <b>Net income for the year before Zakat and minority interests</b> |              | <b>517,540,260</b>                 | <b>563,638,856</b>                   |
| Zakat provision  | (14)         | (1,473,137)                        | (23,090,971)                         |
| <b>Net income before minority interest</b>                         |              | <b>516,067,123</b>                 | <b>540,547,885</b>                   |
| Share of minority interests in the net loss of subsidiaries        |              | 678,355                            | --                                   |
| <b>Net income for the year</b>                                     |              | <b>516,745,478</b>                 | <b>540,547,885</b>                   |
| Earning per share from operations                                  | (22)         | 11,2                               | 11,95                                |
| Earning per share from the net income                              | (22)         | 11,48                              | 12,01                                |

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements



**QASSIM CEMENT COMPANY**  
(Saudi Joint Stock Co.)  
**CONSOLIDATED STATEMENT OF**  
**CASH FLOW**  
For the year ended  
December 31, 2008  
(Saudi Riyals)

|  | <u>2008</u><br><u>Consolidated</u> | <u>2007</u><br><u>Unconsolidated</u> |
|--|------------------------------------|--------------------------------------|
| <b>Cash flows from operating activities:</b>   |                                    |                                      |
| Net income for the year before Zakat and minority interests                              | 517,540,260                        | 563,638,856                          |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                    |                                      |
| Depreciation   | 85,927,241                         | 63,889,364                           |
| Amortization of deferred expenses  | 7,320,692                          | 7,461,582                            |
| Gain/(loss) on sale of property, plant and equipments                                    | 193,189                            | (185,760)                            |
| Under experiment expenses for the third production line                                  | -                                  | 16,227,266                           |
| Unrealized loss/(gain) from valuation of trading investments                             | 3,913,394                          | (3,189,803)                          |
| Net loss of subsidiary for the year ended 2007   | 2,361,686                          | -                                    |
| Employees' end of service benefits provision   | 4,008,662                          | 3,248,797                            |
|  | <u>621,265,124</u>                 | <u>651,090,302</u>                   |
| <b>Changes in operating assets and liabilities:</b>                                      |                                    |                                      |
| Accounts receivable  | (6,578,655)                        | (12,874,846)                         |
| Due from related parties   | -                                  | (43,922,218)                         |
| Prepayments and other receivables  | (12,993,709)                       | (3,657,470)                          |
| Inventories  | (76,730,573)                       | (4,433,499)                          |
| Accounts payables  | 4,248,902                          | 5,928,623                            |
| Accrued expenses and other current liabilities   | (103,243)                          | 22,769,794                           |
| Employees' end of service benefits paid  | (1,873,695)                        | (3,060,685)                          |
| Zakat paid   | (16,158,449)                       | (7,471,301)                          |
| <b>Net cash provided by operating activities</b>   | <u>511,075,702</u>                 | <u>604,368,700</u>                   |
| <b>Cash flows from investing activities:</b>   |                                    |                                      |
| Murabha term deposits  | (222,607,757)                      | 6,136,091                            |
| Investments in subsidiary  | -                                  | (475,000)                            |
| Purchase of property, plant and equipments   | (14,642,062)                       | (7,644,010)                          |
| Capital work in progress   | (89,027,513)                       | (18,857,328)                         |
| Deferred expenses  | (234,275)                          | (256,003)                            |
| Proceeds from sale of property, plant and equipments                                     | 63,000                             | 307,800                              |
| <b>Net cash used in investing activities</b>   | <u>(326,448,607)</u>               | <u>(20,788,450)</u>                  |
| <b>Cash flows from financing activities:</b>   |                                    |                                      |
| Proceeds from long term loans  | 27,350,000                         | 27,350,000                           |
| Payments for long term loans   | (26,000,000)                       | (4,000,000)                          |
| Dividends paid   | (307,977,747)                      | (303,027,278)                        |
| Board of directors remuneration  | (1,557,143)                        | (1,400,000)                          |
| <b>Net cash used in financing activities</b>   | <u>(308,184,890)</u>               | <u>(281,077,278)</u>                 |
|  | <u>(123,557,795)</u>               | <u>302,502,972</u>                   |
| Net (decrease) increase in cash and cash equivalents                                     | 459,836,581                        | 156,781,693                          |
| Cash and cash equivalents at the beginning of the year                                   | 336,278,786                        | 459,284,665                          |
| <b>Cash and cash equivalents at the end of the year</b>                                  |                                    |                                      |

The accompanying notes (1) through (27) form an integral part of these consolidated financial statement

**QASSIM CEMENT COMPANY**  
(Saudi Joint Stock Co.)  
**CONSOLIDATED STATEMENT OF**  
**CHANGES IN SHAREHOLDERS'**  
**EQUITY**  
For the year  
ended December 31, 2008  
(Saudi Riyals)

|  | Notes | Capital            | Statutory Reserve  | General Reserve    | Retained Earnings  | Total                |
|--|-------|--------------------|--------------------|--------------------|--------------------|----------------------|
| Balance at January 1, 2007                       |       | 450,000,000        | 225,000,000        | 275,353,300        | 344,382,955        | 1,294,736,255        |
| Net income for the year                          |       | --                 | --                 | --                 | 540,547,885        | 540,547,885          |
| Dividend   |       | --                 | --                 | --                 | (310,500,000)      | (310,500,000)        |
| Board of directors remuneration                  |       | --                 | --                 | --                 | (1,800,000)        | (1,800,000)          |
| Transferred from Board of directors remuneration | (17)  | --                 | --                 | 400,000            | --                 | 400,000              |
| Transfer to general reserve                      | (17)  | --                 | --                 | 100,000,000        | (100,000,000)      | --                   |
| <b>Balance at December 31, 2007</b>              |       | <b>450,000,000</b> | <b>225,000,000</b> | <b>375,753,300</b> | <b>472,630,840</b> | <b>1,523,384,140</b> |
| Net income for the year                          |       | --                 | --                 | --                 | 516,745,478        | 516,745,478          |
| Dividend   | (24)  | --                 | --                 | --                 | (315,000,000)      | (315,000,000)        |
| Board of directors remuneration                  |       | --                 | --                 | --                 | (1,800,000)        | (1,800,000)          |
| Transferred from Board of directors remuneration | (17)  | --                 | --                 | 242,857            | --                 | 242,857              |
| <b>Balance at December 31, 2008</b>              |       | <b>450,000,000</b> | <b>225,000,000</b> | <b>375,996,157</b> | <b>672,576,318</b> | <b>1,723,572,475</b> |

The accompanying notes (1) through (27) form an integral part of these consolidated financial statements

**QASSIM CEMENT COMPANY**  
(Saudi Joint Stock Co.)  
**NOTES TO CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**As At December 31, 2008**

**1. Organization and activity:**

Qassim Cement Company, (the Company) is a Saudi Joint Stock company registered in Buraidah at Shaban 28, 1398H (corresponding to August 2, 1978G), under Commercial Registration No. 1131001224, The company was established by the Royal Decree No. M/62 on Shaban 15, 1396H (corresponding to August 11, 1976G). The paid up capital of the company in the date of the accompanying financial statements is SR 450 million divided into 45 million shares of SR 10 per each.

The principal activities of the company are to manufacture and sale of cement and its related products and other related direct activities related. The company's registered office and factory are located in Buraidah city, Qassim.

The accompanying consolidated financial statements include the activities of the company and the activities of Cement industries limited Company (the subsidiary). The subsidiary was established during the year ended December 31, 2007, registered in Buraidah under commercial registration no. 1131024146 dated Rajab 22, 1428H (corresponding to August 6, 2007). The paid up capital of the subsidiary is SR. 500,000. The company owns 95% from the subsidiary's equity and having the right of control; the principal activities of the subsidiary are the production and wholesale and retail trading in ready mix concrete, stones, tiles and cement products.

**2. Basis of preparation:**

The 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), under historical cost convention (except for trading investments that are stated by its fair value), using the accrual basis of accounting and the going concern concept, the consolidated financial statements are expressed in Saudi Riyals. The consolidated financial statements were approved by the board of directors on February 22, 2009G (corresponding to 27 Safar 1430H).

The company's financial year starts at 1st January and ends at 31 December in accordance to the company's articles of association.

The preparation of consolidated financial statements requires management to make judgment, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although the estimates and assumptions are based on historical events and other factors that are considered to be relevant, the actual results may differ from these estimates.

The 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 future periods affected.

**3. Significant accounting policies:**

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



**QASSIM CEMENT COMPANY**  
(Saudi Joint Stock Co.)  
**NOTES TO CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**As At December 31, 2008**

**3. Significant accounting policies (Continued):**

*Basis of consolidation*

The accompanying consolidated financial statements include the financial statements of the company and its subsidiary set forth in Note (1) above. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases and will not be included if the subsidiary was under re-structuring.

The financial statement of subsidiary prepared at the same year end date of the company and by relevant accounting policies applied.

For the purpose of preparing the consolidated financial statements, all intra-group balances and financial transactions resulting from transactions between the Company and the subsidiary are eliminated. Also, any unrealized gains or losses arising from intra-group transactions are eliminated.

*Cash and cash equivalents*

Cash and cash equivalents represent cash in hand and at banks, short term Murabha deposits (having maturity within three months or less from the date of acquisition).

*Trading Investments*

Investment in trade securities which are purchased for trading purposes are initially recorded at cost and then re-measured and stated in the balance sheet at market value and included under current assets. Realized gain or loss on sale of trade securities and any unrealized gain or loss resulted from changes in market value at balance sheet date are credited or charged to income statement.

If the fair value of such investments is not determined, then the securities will be valued by cost.

*Accounts receivables*

Accounts receivable are stated at estimated net realisable value less allowances for doubtful amounts. Allowance for doubtful accounts is calculated based on aging of account receivables and the Company previous experience in collecting receivables. Bad debts are written off as incurred.

*Inventories*

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is principally based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion (if any) and selling expenses.

Provision is made for slow moving and obsolete inventory.

**QASSIM CEMENT COMPANY**  
(Saudi Joint Stock Co.)  
**NOTES TO CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
As At December 31, 2008

**3. Significant accounting policies (Continued):**

*Property, plant and equipment*

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the asset and other costs incurred in bringing them to their existing location and condition and to be available for use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement when incurred.

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.

The estimated useful lives of assets are as follow:

|                        |         |
|------------------------|---------|
| Buildings              | 10 - 33 |
| Machinery & Equipments | 8 - 20  |
| Vehicles               | 4 - 8   |
| Furniture & fixtures   | 4 - 10  |
| Tools                  | 10 - 13 |

*Impairment of tangible assets*

Tangible and Intangible assets are reviewed for impairment losses at balance sheet date whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and discounted cash flow generated by these assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

*Deferred charges*

Deferred charges represent the renovation expenses for the power station owned by Saudi Electricity Company that are used by the company in its operations, in addition the SIDF loan arrangement fees and other deferred expenses have future benefits. Deferred charges are amortized using the straight-line method over 3 to 20 years in accordance to the expected useful life.

*Provision of Employees' end of service benefits*

Employees' end of service benefits, calculated in accordance with Saudi Arabia labour regulations, are accrued and charged to statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services are terminated at the balance sheet date.

*Provision for Zakat*

The Company and its subsidiary are subject to Zakat in accordance with the regulations of the Department of Zakat and Income Tax ("DZIT"). The Zakat provided to the provision charged to consolidated statement of income currently.

Any differences between the provision and the final assessment are recorded and recognized at approved final assessment date.



**QASSIM CEMENT COMPANY**  
(Saudi Joint Stock Co.)  
**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS**  
As At December 31, 2008

**3. Significant accounting policies (Continued):**

*Revenue recognition*

Revenue from sales is recognized upon delivery or shipment of products to customers, and is recorded net of returns, trade discounts and volume rebates. Other income is recorded when earned.

*Expenses*

Selling and marketing expenses are those arising from the Group's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding operating expenses and financial charges, are classified as general and administrative expenses. Allocations of common expenses between cost of sales and selling, marketing, general and administrative expenses, when required, are made on a consistent basis.

*Operating Leasing*

Payments under operating leases are recognized in the statement of income on a straight-line basis over the term of the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

*Foreign currencies*

Transactions denominated in foreign currencies are translated to the functional currencies of the Company 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.

*Provisions:*

A provision is recognised in the financial statements when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of the obligation.

*Financial instruments*

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair value. Fair value is determined on the basis of objective evidence at balance sheet date.

*dividends*

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

*Earning per share:*

Earning per share is determined for both operating income and net profit for the year in accordance to weighted average basis as per total numbers of shares during the year.



**QASSIM CEMENT COMPANY**  
(Saudi Joint Stock Co.)  
**NOTES TO CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**As At December 31, 2008**  
(Saudi Riyals)

**4. CASH AND CASH EQUIVALENTS:**

|                           | <u>2008</u>        | <u>2007</u>        |
|---------------------------|--------------------|--------------------|
| Cash in hand              | 56,820             | 137,700            |
| Cash at banks             | 16,641,170         | 22,681,072         |
| Murabaha Islamic deposits | 319,580,796        | 436,465,893        |
|                           | <u>336,278,786</u> | <u>459,284,665</u> |

**5. TRADING INVESTMENTS:**

|                                     | <u>2008</u>      | <u>2007</u>       |
|-------------------------------------|------------------|-------------------|
| Fair value at beginning of the year | 11,668,771       | 8,478,968         |
| Unrealized (loss) / profit          | (3,913,394)      | 3,189,803         |
| Fair value at the end of the year   | <u>7,755,377</u> | <u>11,668,771</u> |

**6. DUE FROM RELATED PARTIES:**

For the purpose of preparing the consolidated financial statements, all intra-group balances and financial transactions resulting from transactions between the Company and its subsidiary are eliminated, so the amount of due to/from related party as of 31 December 2008 have been eliminated.

The balance of related party was against to the purchase of fixed assets and the procurement of raw materials required for subsidiary's operations and the payment of some expenses on behave of the subsidiary.

The intra-group balances and financial transactions resulting from transactions between the Company and its subsidiary for the year ended 31 December 2007 were not eliminated, and the comparative figures presented as unconsolidated financial statements as disclosed in note (23).

**7. PREPAYMENTS AND OTHER RECEIVABLES:**

|                             | <u>2008</u>       | <u>2007</u>       |
|-----------------------------|-------------------|-------------------|
| Other receivables           | 11,595,083        | 4,741,160         |
| Prepayments                 | 4,236,267         | 2,342,498         |
| Advances to suppliers       | 3,046,836         | 3,573,554         |
| Accrued revenue             | 6,664,750         | 2,058,874         |
| custom retentions           | 487,285           | 268,603           |
| Receivables from employees  | 891,358           | 802,206           |
|                             | <u>26,921,579</u> | <u>13,786,895</u> |
| Provision for debt balances | (230,000)         | (160,706)         |
|                             | <u>26,691,579</u> | <u>13,626,189</u> |

**8. INVENTORIES, NET**

|   | <u>2008</u>        | <u>2007</u>        |
|---|--------------------|--------------------|
| Raw materials                                   | 36,252,944         | 23,688,670         |
| Packaging materials                             | 2,870,682          | 1,527,683          |
| Spare parts                                     | 117,577,342        | 99,292,735         |
| Consumables                                     | 2,820,754          | 2,094,728          |
| Work in process                                 | 45,243,139         | 8,491,038          |
| Finished goods                                  | 4,243,139          | 2,861,327          |
| Goods in transit                                | 6,380,702          | -                  |
|   | <u>215,388,888</u> | <u>137,956,181</u> |
| Provision of slow moving and obsolete inventory | (8,548,758)        | (9,317,869)        |
|   | <u>206,840,130</u> | <u>128,638,312</u> |

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**9. PROPERTY, PLANT AND EQUIPMENT, NET**

|                                     | 2008       |             |                        |            |                      |           | 2007          |               |  |  |  |  |
|-------------------------------------|------------|-------------|------------------------|------------|----------------------|-----------|---------------|---------------|--|--|--|--|
| Cost:                               | Land       | Buildings   | Machinery & Equipments | Vehicles   | Furniture & Fixtures | Tools     | Total         | Total         |  |  |  |  |
| Balance at beginning of the year    | 15,024,200 | 582,691,118 | 1,276,182,349          | 3,200,440  | 25,224,283           | 4,597,272 | 1,906,919,662 | 1,069,945,138 |  |  |  |  |
| Additions                           | -          | 56,337,564  | 61,048,736             | 26,038,063 | 1,927,359            | 3,071,845 | 148,423,567   | 839,068,150   |  |  |  |  |
| Disposals                           | -          | -           | (463,520)              | (292,222)  | (3,169,139)          | -         | (3,924,881)   | (2,094,626)   |  |  |  |  |
| Balance at end of the year          | 15,024,200 | 639,028,682 | 1,336,767,565          | 28,946,281 | 23,982,503           | 7,669,117 | 2,051,418,348 | 1,906,919,662 |  |  |  |  |
| Accumulated depreciation:           |            |             |                        |            |                      |           |               |               |  |  |  |  |
| Balance at beginning of the year    | -          | 235,961,549 | 502,888,942            | 3,131,910  | 18,402,877           | 2,568,360 | 762,953,638   | 700,620,378   |  |  |  |  |
| Charge for the year                 | -          | 18,681,226  | 60,635,494             | 10,453,822 | 1,865,300            | 286,051   | 91,921,893    | 63,889,364    |  |  |  |  |
| Disposals                           | -          | -           | (452,525)              | (95,339)   | (3,120,778)          | -         | (3,668,692)   | (1,556,104)   |  |  |  |  |
| Balance at end of the year          | -          | 254,642,775 | 563,071,861            | 13,490,393 | 17,147,399           | 2,854,411 | 851,206,839   | 762,953,638   |  |  |  |  |
| Net book value at December 31, 2008 | 15,024,200 | 384,385,907 | 773,695,704            | 15,455,888 | 6,835,104            | 4,814,706 | 1,200,211,509 |               |  |  |  |  |
| December 31, 2007                   | 15,024,200 | 346,729,569 | 773,293,407            | 68,530     | 6,821,406            | 2,028,912 | 1,143,966,024 |               |  |  |  |  |

The Company's property, plant, and equipment situated in Buraidah equivalent to area of 25 kilo square meter are mortgaged to Saudi Industrial Development Fund (SIDF) as a security for long-term loans provided to the company to finance the third production line as disclosed in note no. (12).

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**9. PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED):**

Depreciation expense is charged as follows:

|                                     | <u>2008</u>       | <u>2007</u>       |
|-------------------------------------|-------------------|-------------------|
| Cost of sales                       | 77,350,988        | 63,466,434        |
| Selling and marketing expenses      | 172,056           | 154,250           |
| General and administrative expenses | 437,711           | 268,680           |
| Other expenses                      | 13,961,138        | -                 |
|                                     | <u>91,921,893</u> | <u>63,889,364</u> |

**10. CAPITAL WORK IN PROGRESS**

|  | <u>2008</u>        | <u>2007</u>        |
|--|--------------------|--------------------|
| Balance at beginning of the year             | 109,648,586        | 952,510,801        |
| Additions                                    | 90,518,034         | 21,065,724         |
| Transferred to property, plant and equipment | (89,146,046)       | (831,007,658)      |
| Transferred to inventories                   | (1,180,052)        | (14,484,621)       |
| Transferred to deferred expenses             | (1,319,543)        | (18,435,660)       |
|  | <u>108,520,979</u> | <u>109,648,586</u> |

Capital work in progress comprise of the completion of packaging silos for the third production line and the upgrading of the second production line, during the year, mill coolers, cement kilns and second production line control room upgrade were capitalized, it is expected that the main projects will be finalized during the first quarter of 2009. Moreover its also included the procurement of some heavy equipments and vehicles related to subsidiary.

**11. DEFERRED EXPENSES, NET**

|                                      | <u>2008</u>       | <u>2007</u>       |
|--------------------------------------|-------------------|-------------------|
| Balance at the beginning of the year | 54,222,852        | 61,428,431        |
| Additions                            | 1,553,817         | 256,003           |
| Amortization for the year            | (7,320,692)       | (7,461,582)       |
|                                      | <u>48,455,977</u> | <u>54,222,852</u> |

Deferred charges represent mainly the renovation expenses for the power station owned by Saudi Electricity Company that are used by the company in its operations, and the SIDF loan arrangement fees.

**12. LONG TERM LOANS**

The company obtained a loan from SIDF during 2004 amounting to SR. 200 million in order to finance its expansion plans, the establishment of the third production line and upgrading the first and second production lines, during 2006 the finance limit increased to SR. 273.5 million, the loan obtained fully withdrawn up to date. During 2007, the company has re-scheduled the repayment of the loan in order to be paid over 12 unequal instalments commencing from Shaban 15, 1428H (corresponding to August 28, 2007G), the last instalment is accrued on Safar 14, 1434H (corresponding to December 28, 2012G).



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**12. LONG TERM LOANS (continued):**

The loan is secured by all company's property, plant, and equipment situated in Buraidah equivalent to area of 25 kilo square meter are mortgaged to Saudi Industrial Development Fund (SIDF) as a security for long-term loans provided to the company to finance the third production line.

In accordance to the repayment schedule, the SIDF loan balance as at December 31 is as follows:

|                                    | <u>2008</u>        | <u>2007</u>        |
|------------------------------------|--------------------|--------------------|
| Balance at beginning of the year   | 242,150,000        | 218,800,000        |
| Amounts withdrawn during the year  | 27,350,000         | 27,350,000         |
| Repayments during the year         | (26,000,000)       | (4,000,000)        |
|                                    | <u>243,500,000</u> | <u>242,150,000</u> |
| Current portion of long term loans | (44,000,000)       | (26,000,000)       |
|                                    | <u>199,500,000</u> | <u>216,150,000</u> |

Accrual dates of non-current portions of loans are as follows:

|                                 |                    |
|---------------------------------|--------------------|
| Instalments accrued during 2010 | 55,000,000         |
| Instalments accrued during 2011 | 58,000,000         |
| Instalments accrued during 2012 | 86,500,000         |
|                                 | <u>199,500,000</u> |

**13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

|                         | <u>2008</u>        | <u>2007</u>        |
|-------------------------|--------------------|--------------------|
| Accrued expenses        | 56,589,649         | 58,195,904         |
| Retentions              | 145,297,109        | 143,640,509        |
| Advances from customers | 6,734,317          | 6,523,315          |
| Others                  | 72,086             | 62,500             |
|                         | <u>208,693,161</u> | <u>208,422,228</u> |

**14. ZAKAT PROVISION**

The Company has obtained the final Zakat assessment for the years then ended at December 31, 2004; the DZIT issued its assessment for the years from 2001 to 2004 asking for additional Zakat of SR. 22.1 million. The company rejected the assessment before the preliminary rejection committee, during 2006 the company received the decision of the committee that approved the company's rejection, but DZIT has appealed before the Appeal committee that confirmed the rejection of the company and that the company's accruals before DZIT are the amount of SR. 3,071,484. The company submitted its declaration for the years 2005, 2006 and 2007 and the final assessment is not issued by DZIT.

The movement of the provision is as follows:

|                                      | <u>2008</u>       | <u>2007</u>       |
|--------------------------------------|-------------------|-------------------|
| Balance at the beginning of the year | 29,474,356        | 13,854,686        |
| Charge during the year               | 1,473,137         | 23,090,971        |
| Payments made during the year        | (16,158,449)      | (7,471,301)       |
| Balance at the end of the year       | <u>14,789,044</u> | <u>29,474,356</u> |

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**QASSIM CEMENT 14. ZAKAT PROVISION (continued):**

Zakat base:

Zakat were calculated for the company in accordance to its financial statements that were prepared for this purpose as per the individual accounts of the company, Zakat components include the following:

|  | <u>2008</u>      | <u>2007</u>       |
|--|------------------|-------------------|
| Shareholders' equity                             | 1,523,384,140    | 1,294,736,255     |
| Net adjusted profit                              | a 421,046,868    | 505,155,837       |
| Additions  | 312,392,657      | 266,145,972       |
| Deductions                                       | (1,542,402,562)  | (1,715,425,378)   |
| Net Zakat base                                   | b 714,421,103    | 350,612,686       |
| Zakat base, the higher of (a and b)              | 714,421,103      | 505,155,837       |
| Zakat for the year                               | 17,860,528       | 12,628,896        |
| Add: additional Zakat provision                  | -                | 10,462,075        |
| Less: remaining balance after Zakat provision    | (13,315,907)     | -                 |
| Less: accrued amounts after the final assessment | (3,071,484)      | -                 |
| <b>Zakat expense charged to the year</b>         | <u>1,473,137</u> | <u>23,090,971</u> |

**15. EMPLOYEES' END OF SERVICE PROVISION:**

|                                  | <u>2008</u>       | <u>2007</u>       |
|----------------------------------|-------------------|-------------------|
| Balance at beginning of the year | 16,252,676        | 16,064,564        |
| Charge during the year           | 4,008,662         | 3,248,797         |
| Payments made during the year    | (1,783,695)       | (3,060,685)       |
| Balance at end of the year       | <u>18,387,643</u> | <u>16,252,676</u> |

**16. STATUTORY RESERVE:**

In accordance with Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution. The Company's Board of Directors approved discontinuing the deduction from net income to statutory reserve as it reached 50% of the Company's paid-up capital.

**17. GENERAL RESERVE:**

The shareholders have established a general reserve by appropriation from retained earnings as per the approval of the shareholders' general assembly. Board of directors' remunerations not attended by the board are transferred to the general reserve.

**SELLING AND DISTRIBUTION EXPENSES**

|   | <u>2008</u>      | <u>2007</u>      |
|---|------------------|------------------|
| Salaries and other employees' benefits      | 4,294,608        | 4,270,243        |
| Advertising, publicity and public relations | 450,030          | 146,950          |
| Communications                              | 43,041           | 47,655           |
| Depreciation                                | 172,056          | 154,250          |
| Office equipments and printings             | 47,798           | 50,113           |
| Maintenance and fuel                        | 49,239           | 76,701           |
| Others                                      | 697,259          | 1,002,266        |
|   | <u>5,754,031</u> | <u>5,748,178</u> |

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**GENERAL AND ADMINISTRATIVE EXPENSES**

|  | <u>2008</u>       | <u>2007</u>       |
|--|-------------------|-------------------|
| Salaries and other employees' benefits     | 8,643,700         | 7,143,745         |
| Depreciation                               | 437,711           | 268,680           |
| Administrative and financial consultations | 671,431           | 3,480,263         |
| Hospitality and public relations           | 138,363           | 118,026           |
| Donations                                  | 1,653,210         | 1,164,499         |
| Communications and postage                 | 62,415            | 106,394           |
| Printing, advertisings and publications    | 195,290           | 215,089           |
| Maintenance and fuel and electricity       | 189,235           | 336,666           |
| Board of directors session allowance       | 532,218           | 532,510           |
| Others                                     | 1,025,640         | 611,816           |
|  | <u>13,549,213</u> | <u>13,977,688</u> |

**OTHER INCOME**

|   | <u>2008</u>       | <u>2007</u>       |
|---|-------------------|-------------------|
| Murabaha revenues   | 21,371,375        | 12,343,440        |
| Net revenues from trial operations of third production line | -                 | 9,714,514         |
| Income from selling fixed assets                            | -                 | 185,760           |
| Income from exchange rates                                  | -                 | 2,064,516         |
| Unearned income from trading in securities                  | -                 | 3,189,803         |
| Other   | 8,170,059         | 1,944,403         |
|   | <u>29,541,434</u> | <u>29,442,436</u> |

**OTHER EXPENSES**

|  | <u>2008</u>       | <u>2007</u>      |
|--|-------------------|------------------|
| Loss from disposal of properties and equipments      | 193,189           | -                |
| Loss from exchange rates                             | 565,744           | -                |
| Unearned loss from trading in securities             | 3,913,394         | -                |
| Finance charges                                      | 3,526,906         | 3,463,622        |
| Net expenses for the establishment of a subsidiary * | 7,925,315         | -                |
|  | <u>16,124,548</u> | <u>3,463,622</u> |

\* After the elimination of the income of the subsidiary from the expenses

**SHARE'S PROFITABILITY**

The profitability of the share were calculated for the years ended December 31, 2008 and 2007 on an average weighted basis for the ordinary shares of 45 million share during the year.



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**THE CONSOLIDATION OF THE SUBSIDIARY:**

The accompanying consolidated financial statements of the company and Cement Industries Co. Ltd. (a subsidiary) with a total investment of 95% after the elimination of enter balances and transactions between the companies. The consolidated statement of income and cash flows include the transactions of the subsidiary since the date of its commercial registration and up to 31 December 2008. the following a summary for the financial position and results of operations for the subsidiary during the period ended at 31 December 2008:

| Total assets | Total liabilities | Sales     | Gross loss | Net loss   |
|--------------|-------------------|-----------|------------|------------|
| 86,987,964   | 100,055,073       | 2,262,061 | 4,700,362  | 13,567,109 |

The financial statements of the comparative year is not consolidated where the first financial period of the subsidiary commence from the date of its commercial registration and end at 31 December 2008, the subsidiary also were in the phase of re-organizing year 2007 and did not start its commercial operations yet.

**DIVIDEND:**

The company in 2008 distributed a dividend of SR 283.5 million from the profit of year 2007 equivalent to SR. 6.3 per share (2007:SR.207 million from the profit of year 2006 equivalent to SR. 4.6 per share).

The board of directors in its session held on 19 July 2008 with the distribution of semi annual dividend of SR. 135 million from the profit of 2008 equivalent to SR.3 per share.

**CONTINGENT LIABILITIES:**

Contingent liabilities on the company amounted to SR. 74 million from the total operations of SR. 1,257 million (2007:SR.89 million from a total operations of SR. 1,202) against procurement agreements and the establishment of the third production line and the upgrading of the first and second production lines and establishment of administrative offices.

Contingent liabilities on the company are SR. 10,1 million (2007:SR. 11.7 million) that comprise of uncovered bank guarantees issued by the company regarding custom sponsorship and supplier guarantees.

**26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The financial assets of the Company include cash and cash equivalents, Murabaha, investments, other accounts receivable and related party transactions, suppliers, other payables and long term loans.

***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk on bank balances and accounts receivable is limited as the Company is dealing with banks and clients with good credit rating.

***Fair value***

Fair value is the amount for which an asset can be exchange or liabilities can be settled, between knowledgeable and well-informed parties transacting at an "arms length". As the accompanying financial statements are prepared under the historical cost method, management believes that the fair value of the Company's financial assets and liabilities are not materially different from their carrying values. The company's management believes that the fair value of assets and liabilities are approximately close to the carrying amount.

**26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued):**

**Interest rate risk**

Interest rate risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's financial assets and liabilities as at the balance sheet date, except for short-term loan, are not exposed to interest rate risk. Short term loans bears floating rate of interest and exposed the company to movements in market interest rate.

**Liquidity risk**

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**

Currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The majority of the purchases are from foreign suppliers and is exposed to foreign currency risk on these transactions. The Company exposed mainly on purchases transactions made from vendors that are denominated in Euro.

**27. COMPARATIVE FIGURES**

Certain reclassifications have been made to the 2007 financial statement balances to conform to the current year presentation. As disclosed in note 23 from the accompanying financial statements, the company's financial statements of the year then ended 31 December 2007 are not consolidated.



أسمنت القصيم  
Qassim Cement





شركة أسمنت القصيم  
القصيم - بريدة - طريق الطويقية  
هاتف : ٠٦٣١٦٠٠٠٠  
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