

annual report 2008

2008



شركة الخزف السعودية  
Saudi Ceramic Company



اسم الله الوهوب الوهوب



شركة الخزف السعودية  
Saudi Ceramic Company

E-mail: [info@saudiceramics.com](mailto:info@saudiceramics.com)  
Website: [www.saudiceramics.com](http://www.saudiceramics.com)

## SC Locations

### Head Office:

**Riyadh, King Fahad Road**  
P.O. Box 3893  
Riyadh 11481, Saudi Arabia  
Tel.: 4644244 Fax: 4627569

### Sales Management:

Tel.: 4644244 Fax: 4652124

### Marketing Department:

Tel.: 4644244 Fax: 4610147

### Central Region:

Regional Sales Department:  
Tel.: 4644244 Ext. 1720 Fax: 4652124  
Olaya Showroom: 4644244  
Takhassusi Showroom: 4880395  
Malaz Showroom: 4770715  
Rawdah Showroom: 2784360  
Badeha Showroom: 2674507  
Nafal Showroom: 2105065  
Kharj Road Showroom: 2133518

### Western Region:

Regional Sales Department:  
Tel.: 6586565 Fax: 6058842  
Altahlaya Showroom: 6690055  
Jeddah Showroom 2: 6586565  
Taif Showroom: 7376092  
Makkah Showroom: 5485588  
Medinah Showroom: 8488844

### Eastern Region:

Regional Sales Department:  
Tel.: 8340670 Fax: 8331764  
Dammam Showroom: 8340670  
Al Khobar Showroom: 8962644  
Al Ahsa Showroom: 5307624  
Jubail Showroom: 3411200

### Southern Region:

Regional Sales Department:  
Tel.: 2216311 Fax: 2216291  
Asir Showroom: 2216311  
Jazan Showroom: 3231191  
Najran Showroom: 5235455

### Qassim & North Region:

Regional Sales Department:  
Tel.: 3819009 Fax: 3814872  
Buraidah Showroom: 3819009  
Tabuk Showroom: 4238965  
Unaiza Showroom: 3655005  
Hail Showroom: 5340068  
Sakaka Office: 6261556

### Export Sales:

Tel.: (01) 4644244 Ext. 1610  
Fax: (01) 2177672

### Dubai Sales Office:

Tel.: 00 971 4 2666584  
Fax: 00 971 4 2666594

### Sanitary Ware Plant

Tel: 4981030  
Fax : 4981832

### Ceramic Tile Plant

Tel: 2650265 Ext. 2112  
Fax: 2650265 Ext. 3180

### Water Heater Plant

Tel: 2650265 Ext. 3015  
Fax: 2650265 3046

Member of The National Committee for Joint Stock Companies





Custodian of the Two Holy Mosques  
King Abdullah bin Abdul Aziz Al-Saud



The Crown Prince, Deputy Premier and Minister of  
Defense & Aviation and Inspector General  
HRH Prince Sultan bin Abdul Aziz Al-Saud

Board of Directors

Board of



**Saad Ibrahim Al-Moajel**  
 Chairman



**Khalid Ali Al-Sultan**  
 Board Member



**Khalid Saleh Al Rajhi**  
 Board Member



**Fahad A. Al-Howaimel**  
 (General Organization for Social Insurance)  
 Board Member



**Suleiman M. Al-Khalifi**  
 Board Member



**Abdullah M. Al-Quhtani**  
 (Public Investment Fund)  
 Board Member



**Fahad Abdullah Al-Harbi**  
 Board Member

# Directors

## Executive Committee

# Executive Committee

**Khalid Saleh Al Rajhi**  
Chairman of Executive Committee

**Fahad A.Al-Howaimel**  
Executive Committee Member

**Fahad Abdullah Al-Harbi**  
Executive Committee Member



**Abdulkarim Al nafie**  
CEO





## Chairman's Statement

### Messrs: The Saudi Ceramic Company Shareholders

On behalf of The Board of Directors, I personally welcome you to this meeting and to present to you the Thirty First Annual Report of the Saudi Ceramic Company which includes the board of Director's report, the Company's financial statements for 2008 and their attachments as well as the external auditor's report.

Saudi Ceramic Company continued achieving positive results and new records in production, marketing and profits during 2008. The factories of the company operated at full production capacity during 2008 resulting in an increase of 33% in the production of tiles, 16% in sanitary ware and 18% in water heaters compared to 2007 production. The company sales set a new record for the year 2008 with total sales of SR 857 million increasing 39.4% compared to that of 2007. The total export sales during 2008 reached SR 125 million covering 48 countries including three new markets in Portugal, Tunisia & Ghana.

Furthermore, the company has set new records in profitability where net profit in 2008 totaled SR 177.9 million against SR127.5 million in 2007.

The company continues its expansions in all factories in order to maintain its share in the market through utilizing the latest modern technologies to produce high quality products that satisfy its customer's needs and taste. In the tiles factory, we started replacing the old tiles production line in the first factory with a new one which will start production during the second quarter of 2009 with two million square meters annually.

The Board of directors also approved, during last year, a new project for the production of tiles with annual maximum capacity of 17 million square meters. This project shall be executed in two stages; the first stage shall start in 2010. The company also has signed a contract for the expansion of the sanitary ware factory by adding a new Kiln with a capacity of 10,000 ton by 2010. The work is also under progress in the second water heaters factory as planned. It is expected to begin production in the beginning of the second quarter of this year 2009.

The company already finished the expansion of the Frit Plant for tile glazing with annual production capacity of ten thousand tons. The company also finished the establishment of raw materials Dry Grinding plant with a designed capacity of fifty thousand tons annually. This will contribute in reducing the cost of the products and minimizing the imported materials as well as allowing the company to sell the materials in excess of its needs in the future.

In the field of manpower and training, the company signed an agreement with the Human Resources Fund to attract & recruit 123 Saudi trainees according to a training program connected with their employment. 102 of these trainees have been employed in various specializations. The total number of Saudis working in the company is (560) with an increase of 14% compared to the beginning of this year. On the other hand the company's Training Center has carried out 18 training courses during 2008 in which 424 trainees were enrolled.

Finally, it is my pleasure to take this opportunity to express on your behalf our sincere gratitude and appreciation to the Custodian of The Two Holy Mosques, The Crown Prince and Our Government for their continuous support & help to our company. My gratitude is also due to our valuable customers inside and outside the kingdom for their trust in the company and its products. I also thank the company staff members & management for their sincere efforts and devotion which culminated in these excellent results.

**Saad Ibrahim Al-Moajel**  
Chairman, Board of Director

Chairman's Statement

## Board of Directors Report

To the Thirty First Ordinary General Assembly held on Sunday 25th Raba'e Awal 1430H equivalent 22nd March 2009G at 8.00 PM, at Najd Hall, Riyadh Marriott Hotel.

### Dear Shareholders,

The Board of Directors is pleased to welcome you and to thank you for accepting its invitation to attend the 31st ordinary general assembly. The Board of Directors is hereby presenting to you the annual report together with the financial statements for the year 2008, including the company's balance sheet at 31st December 2008 plus income & cash flow statements for the year, changes in shareholders equities as well as the explanatory notes for those statements for the year ending thereof.

### The Company Activities:

The company's main activity is manufacturing various types of ceramic products, water heaters and their various components, marketing and selling them inside and outside the Kingdom of Saudi Arabia and establishing the necessary factories for producing them. The company may, for achieving its purposes own real estates, transferable assets and may engage in agreements and contracts that achieve its objectives within the limits of applicable regulations.

### Summary of 2008 Results:

In 2008, the company achieved new records in terms of performance and good results in production, marketing and profitability. The company achieved its targeted figures according to the budget of 2008 as follows:

1. The operational profit increased by 48.1% compared to last year 2007. Below is an illustration showing the operational profits, investments profits & other revenues of 2008 compared with 2007:

	2008 (1000 Riyals)	2007 (1000 Riyals)
Operational Profits	165,536	111,789
Investments Profits & other Revenues	12,368	15,723
Total Net Profit	177,904	127,512

### 1.1 Business Results according to type of Activity:

	Ceramic Products (1000 Riyals)	Water Heaters (1000 Riyals)	Total (1000 Riyals)
Sales	671,737	185,369	857,106
Net Profit	158,657	19,247	177,904

### 1.2 Geographic analysis for the company Revenues:

Geographic Area	Percentage
Saudi Arabia	85.5%
Foreign Exports	14.5%
Total	100%

- The company sales for 2008 set a new record in its history amounting to SR 857 million by an increase of 39.4 % compared to 2007, record. The Company continues to reinforce its presence in most cities of Saudi Arabia through 24 showrooms in addition to a wide network of distributors spread in different parts of the Kingdom. The company has an office at Dubai and continues its endeavor towards expanding its exports to foreign markets. Its total export value in 2008 was SR125 million which represents 14.5% of the company sales. The company products are exported to GCC states, Arab countries and other several foreign countries. During 2008 the company products were exported to 48 countries, including three new countries, Portugal, Tunisia and Ghana.
- During 2008, the company factories operated at full production capacity, without any noticeable stoppage in the production lines. The factories achieved 33% increase in the production of tiles, 16% increase in sanitary ware & 18% increase in water heaters compared with 2007 production.

### The Company Factories Expansion:

In its last year 2007 report, the Board of Directors pointed out that work is under progress in a new tiles line in the first factory and that production is expected to start at the beginning of the second quarter of 2008. This project was accomplished and started production during February 2008 and produced a total of 1.45 million square meters during 2008.

The replacement of the old tiles production line in the first factory whose capacity was 600,000 square meters by a new line with annual production capacity of 2 million square meters is under implementation and it is expected to commence production at the beginning of the second quarter of 2009.

The Board of Directors also approved a new project for establishing three tile production lines in the second factory premises. The designed production capacity for this project is 17 million square meters and will be executed in two stages. Production of the first stage in this project is expected to start during the second half of 2010.

These expansions will contribute to the production of high quality ceramic tiles and porcelain tiles and will allow the company to produce new different sizes and designs to satisfy the needs of the company's customers.

The expansion project of the Frit plant for glazing tiles was operational by the end of 2008 with annual production of 10,000 tons. This project will contribute to reduce tiles glazing cost and minimize the quantity of the imported glazing materials.

Furthermore, work has also been finished in establishing a Dry Grinding Plant for the crushing and treatment of feldspar, silica and lime stone. The annual designed production capacity for this plant is 50,000 tons of crushed and treated raw materials. This plant will contribute to reducing raw materials cost and allow the company to sell excess materials in the future.

The company also signed a contract to purchase a new kiln for sanitary ware factory with annual production capacity of 10, 000 tons. This project is expected to commence production in early 2010.

Work is progressing in the second water heaters factory project as planned. The production of this new factory is expected to begin in the second quarter of 2009.

### Future Expectations and Risks Exposure:

The company work is going on in accordance to strategic plans set and drawn by the Board of Directors in all its expansions and operational activities. After the completion of the factories' expansion projects pertaining to 2009, the production of tile factories is expected to increase by 1 million square meters to reach a total of 34 million square meters annually. The annual production of water heaters factory, for 2009, will increase by 350,000 units to reach a total of 1.2 million units of water heaters per year.





According to the best available information, there are no expected risks facing the operational activities of the company. However, the potential risks are mainly in the negative impacts of the current international financial crisis at the level of demand and prices of the products in the markets, besides the probability of facing shortages in manpower needed for the new factories expansions or power interruption. The company management has plans to mitigate these incidents in case of their occurrence.

#### Loans of Saudi Industrial Development Fund (SIDF):

During 2008, the company received 11.72 million Saudi Riyals from the SIDF for financing the tiles factory expansion projects. The company also repaid to SIDF the due installments during 2008 amounting to 14.2 million Saudi Riyals. The total Fund's loan balance at the end of 2008 amounted to 91.9 million Saudi Riyals.

The Board of Directors takes this opportunity to express its thanks and appreciation to the Saudi Industrial Development Fund and its officials for the support and help extended to the company.

#### Bank Loans:

During 2008, The Company also obtained short and long term bank loans from local banks within the guidelines of Islamic Murabaha system for financing the company factories expansion projects. The total balance of these (short and long term loans) at 31st Dec. 2008 amounted to SR 558 million.

#### Manpower & Training:

The company signed an agreement with the Human Resources Fund to train and recruit 123 trainees according to the training program connected with their employment. 102 of those trainees have been employed in different specializations. The total numbers of Saudis employed during 2008 were 286 while the number of Saudis working currently for the company totaled to 560 employees with an increase of 14% compared to the beginning of 2008. The company works continuously in training and recruiting Saudi workers. During 2008, the company training center has provided 18 training courses 9 of which were provided by the training centers outside the company in different specializations. Whereas the training center of the company executed 9 other different courses. This brings the total number of trainees to 424 during 2008.

#### Investments in Other Companies:

The balance at the end of 2008 represents investments in associate companies (Natural Gas Distribution Company and Ceramic Pipes Company (CPC)) with an amount of SR 32.6 million, beside investments in (available-for-sale) securities of SR 14.3 million.



### Share & Credit Instruments Activities:

During 2008, there were no credit instruments issued by the company. The interest in the category of shares that have priority of the voting is limited (except for the members of the Board of Directors or senior executives and their wives and dependent children) to the following persons:

Name of Shareholder	% of capital as of 31/12/2008
Salih Abdulaziz Al-Rajhi	15.99
Falcom For Financial Services	6.84

There are not any option rights or subscription rights or interest for the members of the Board of Directors or chief executives or members of their families in the company's shares during 2008. There are not any transference or subscription rights, either, pursuant to credit instruments convertible to shares or option rights or application right notes or similar rights issued or granted by the company during 2008. There is not, either, any redemption, purchase or cancellation by the company of any revocable credit instruments. There are not any arrangements or agreement under which any of the shareholders assign any of their dividends. Nor are there any assignment arrangement or agreement under which any of the Board of Directors or any one of the chief executives assigns any of their rights or allowances.

### Zakat:

The company submitted its Zakat declaration for 2007 and subsequently obtained a certificate from the Zakat and Income Department which enables it to settle all its obligations and cash its remunerations. The balance of Zakat provision on 31/12/2008 amounted to SR 6,150,000 against the Zakat for 2008 and any settlements which might appear upon the final assessment of 2008.

### Regular Payments & Probable Liabilities:

The company obtained banking facilities in the form of guarantee letters & documentary credits from local banks amounting to SR 105 million as of 31st December 2008. On the other hand, the company submitted a guarantee for a part of the Saudi Industrial Development Fund loan which was granted to one of the associate company's equivalent to the company's share in the capital of the associate company amounting SR 1.87 million.

The company is bound by contracts to execute capital investment for equipment and factory expansions, and these liabilities amounted to SR108 million as of 31/12/2008.

### Board of Directors:

In accordance with the company's Article of Association, the members of the Board of Directors are selected by the General Assembly of the company's shareholders for three years. The current council members have been appointed by the General Assembly held on the first of April 2007. Bellow is an illustration of 2008 Board of Directors member names, their equities & change in their equities during 2008:

S. No.	Member Name	No. of Shares		Related Parties Share (Wife & Sons)	
		31/12/2008	31/12/2007	31/12/2008	31/12/2007
1	Saad Ibrahim Al-Moajel	201,000	201,000	2,500	2,500
2	General Organization for Social Insurance	3,997,025	3,997,025		
3	Public Investment Fund	1,350,125	1,350,125		
4	Khalid Ali Al-Sultan	4,500	4,500	NIL	NIL
5	Khalid Saleh Al-Rajhi	1,000	1,000		
6	Suleiman Mohammed Al-Khalifi	4,000	30,000	25,000	55,000
7	Fahad Abdullah Al-Harbi	2,000	2,000	NIL	NIL

#### Senior Executives Shares:

Name	Position	Share No.		Wife & Sons Share	
		31/12/2008	31/12/2007	31/12/2008	31/12/2007
Abdulkarim Ibraim Al-Nafie	Chief Executive Officer	1,000	1,000	-	-
Ali Salih Al-Naim	V.P. Finance & Admin.	-	1,400	500	-
Ibrahim Mohammed Al-Haidry	V.P. Sales & Marketing	NIL	NIL	NIL	NIL
Saad Abdulrahman Al-Fayez	Finance Manager	NIL	NIL	NIL	NIL
Abdallah Nassir Al-Awairdi	Information Tech. Mang.	NIL	NIL	NIL	NIL

#### Board of Directors members participating in other Stock Companies:

S. No.	Member Name	Name of Joint Stock Companies
1	Saad Ibrahim Al-Maoajel	Eastern Cement Co., Arabian Pipe Co.
2	Fahad Abdulrahman Al-Howimel (GOSI representative)	Riyadh Bank
3	Khalid Ali Al-Sultan	N/A
4	Abdullah Mohammed Al-Gahtani (PIF representative)	N/A
5	Khalid Saleh Al-Rajhi	N/A
6	Suleiman Moahmmed Al-Khalifi	N/A
7	Fahad Abdullah Al-Harbi	N/A

#### Board of Directors Meetings:

The Board of Directors held (5) meetings during 2008. The attendance of these meeting was as follows:

S. No.	Member Name	Classification	Meetings	Attendance (%)
1	Saad Ibrahim Al-Maoajel	Independent, non-executive	5	100
2	General Organization for Social Insurance	Dependent, non-executive	5	100
3	Khalid Ali Al-Sultan	Independent, non-executive	5	100
4	Public Investment Fund	Dependent, non-executive	5	100
5	Khalid Saleh Al-Rajhi	Independent, non-executive	5	100
6	Suleiman Mohammed Al-Khalifi	Independent, non-executive	5	100
7	Fahad Abdullah Al-Harbi	Independent, non-executive	5	100

Board of Directors Members attendance Percentage was 100%

#### Executive Committee:

The executive committee consists of three board members chosen by the Board of Directors. Their membership in the committee is terminated upon the completion of the term specified for the Board of Directors. They may be reappointed for similar terms. The executive committee's responsibilities include implementing the company policies, monitoring company's performance, approving the projects & the expenses within the limits of their authorities & responsibilities as defined by the Board of Directors.

Regular minutes of the executive committee meetings are maintained and signed by the committee's members & presented to the Board of Directors in the next nearest meeting.

Current Executive Committee Members:

1. Khalid Saleh Al-Rajhi Chairman
2. Fahad Abdullah Al-Harbi Member
3. Fahad Abdulrahman Al-Howaimel (GOSI Representative) Member

The executive committee held (10) meetings during 2008 & the attendance percentage was 100% as follows:

S. No.	Member Name	Meetings	Attendance (%)
1	Khalid Saleh Al-Rajhi	10	100
2	Fahad Abdulrahman Al-Howaimel (GOSI representative)	10	100
3	Fahad Abdullah Al-Harbi	10	100

#### Remunerations, Salaries & Allowances:

Items	Board Executive Members	Board non-executive Members	5 Senior Executives Including Executive Chairman & Financial Manager received High remunerations & Compensations
Salaries & Compensations	-	-	2,257,140
Allowances	-	293,000	564,285
Periodical & Annual Remunerations	-	1,400,000	1,755,760
Incentive Plans	-	-	485,957
Other Merits	-	-	-
Total	-	1,693,000	5,063,142

Note: Board of Directors membership remuneration for 2008 will be paid from 2008 profits distribution after approval by the General Assembly.

#### Audit Committee:

The audit committee is composed of three members selected by the Board of Directors for a period not exceeding three years & not less than one year. They may be reappointed for similar terms. Membership of the committee ends with the expiry of the membership of the Board of Directors. Members of the audit committee should own a number of shares, the nominal value of which is not less than SR 2,000. Among the committee members, at least one should have a reasonable knowledge in financial and accounting affairs according to the criteria of selection, duration of their membership and its scope of work as approved by the Ordinary General Assembly held on 17/4/1994 and the Ordinary General Assembly held on 1/4/2007.

The current audit committee is composed of the company's shareholders not members of the Board of Director's. The basic tasks of the audit committee are ensuring adequacy and effectiveness of internal control procedures, ensuring financial statements integrity and validity, recommending external auditor's selection according to specific measures and studying the reports and remarks submitted by the external auditors and the internal audit department.





The current audit committee is composed of the following members:

- |                                |          |
|--------------------------------|----------|
| 1. Mohammed Abdullah Al-Khayal | Chairman |
| 2. Ali Abdulrahman Al-Gwaiz    | Member   |
| 3. Musa'ed Ahmed Al-Musfir     | Member   |

The audit committee held (4) meetings during 2008.

#### **Nomination & Remuneration Committee:**

The General Assembly of the Company in its meeting of 17/3/2008 and in accordance with the Board of Directors' recommendation issued the rules for selecting the members of the nomination and remuneration committee, their membership term and the committee scope of work. The nomination and remuneration committee is composed of at least three members chosen by the company Board of Directors for a period not exceeding three years and not less than one year. The committee membership expires by the end of Board of Directors period. The nomination & remuneration committee member should own a number of shares, the nominal value of which is not less than SR 2,000.

Among the tasks of nomination and remuneration committee is a recommendation for the Board membership in accordance with the approved policies and criteria as well as preparing description of the required qualifications for the Board of Directors membership, defining the weakness and strength points of the Board and proposing remedy for them and ensuring that there is no conflict of interests. Additionally the committee prepares policies for the remuneration and compensation policies for the members of the Board of Directors and senior executives.

The Board of Directors appointed the first nomination & remuneration committee of the following (4) members:

- |                                 |                                    |
|---------------------------------|------------------------------------|
| 1. Khalid Salih Al-Rajhi        | Non-executive Board member         |
| 2. Abdullah Mohammed Al-Qahtani | Non-executive Board member         |
| 3. Mohammed Al-Imran            | Non-Board of Directors Shareholder |
| 4. Faisal Mohammed Bin Adwan    | Non-Board of Directors Shareholder |

The nomination and remuneration committee held three meetings during 2008.

#### **Conflict of Interests:**

1. There is no basic direct or indirect material interest for any Board of Directors member, CEO or Financial Affairs Manager in any business or contracts signed to the benefit of the company during 2008.
2. The company has not offered any cash loan of any kind to any of the Board of Directors members nor has guaranteed any loan made by any of the Board's members.
3. The purchases of Saudi Marble and Granite Factory (YARA)- a company owned by the Board of Directors' member Fahad Abdullah Al-Harbi - during 2008 was SR14,905,226 and the factory's debit balance at the end of 2008 was SR 2,345,290. The Board of Director's consent was taken for that and recorded in the company minutes. The General Assembly of the company shareholders held on 17/3/2008 approved to allow for Board of Director's member to maintain his membership and practice his private business which is considered a competitor to the company for one year.





#### Penalties:

The Capital Market Authority imposed a financial penalty of SR 100,000 on the company for delaying the publication concerning a Board of Director's meeting in the corporate information system for few hours. It is worth mentioning that this incident had no negative impact on the company shares in the stock market.

#### The Company Accounts & the Internal Audit System:

The company has an internal audit department. The internal audit system was established on proper basis and it was effectively executed. The accounting records have been properly prepared and in accordance with the accounting standards issued by the Saudi Association of Chartered Accountants. The Board of Director's assures that it has no doubts at all concerning the company ability to pursue its activity.



#### The External Auditors:

The General Assembly for the company shareholders held on 17/3/2008 reappointed the office of Messrs Doctor Mohammed Al-A'mri & Co. for the second year successively for auditing the company accounts for the year 2008 according to the audit committee recommendation.

## Company Activities in the Last Five Years:

The diagrams below illustrate the most significant financial indicators for the company activities during the last 5 years (2004-2008) in thousand Saudi Riyals.



## Other Financial Indicators

	2004	2005	2006	2007	2008
Net Profit to Assets	17.0 %	11.0 %	9.0 %	9.9 %	11.4 %
Net Profit to Equity	23.0 %	17.0 %	17.0 %	20.8 %	24.6 %
Gross Profit to Sales	41.3 %	38.7 %	37.1 %	36.7 %	37.4 %
Net Profit to Sales	33.2 %	19.7 %	18.6 %	20.7 %	20.8 %
Net Operational Profit to Sales	19.3 %	18.7 %	18.1 %	18.2 %	19.3 %
Net Profit per Share	4.28	3.34	3.73	5.10	7.12



### Corporate Governance:

The company is keen to apply all guidance rules for corporate governance issued by the Capital Market Authority. In this regard, the company appointed a follow-up committee to prepare special governance system that complies with the company's governance rules. Such system will include a mechanism for supervising the system and monitoring the level of its performance and adjusting it, whenever necessary. The company applies in general all the guidance governance rules except the following:

1. Clause (d) of article VII concerning stating the persons of legal capacity who behave on behalf of others – stating their policy in voting in their annual reports.etc since the company has not received such statement from any part.
2. Clause (d) of article X concerning setting policies, standards and procedures for the membership in the Board of Directors.
3. Clause (p) of article XII concerning persons having legal capacity who have the right- pursuant to the company system- to nominate their representative in the Board of Directors where the company system does not give this right.

### Profits Distribution Policy for 2008:

During 2008, the company achieved a new record in net profit amounting to SR177.9 million against SR127.5 million in 2007. The company net profits are distributed after deducing all the expenses and liabilities:

1. Deduction of Zakat.
2. Deducting 10% of net profit for statutory reserve. The General Assembly has the right to stop this deduction whenever the reserved amount reaches half of the company capital.
3. Distribute first batch equal to 5% of the paid up capital to the shareholders.
4. Allocation of 7.5% of the remaining as remuneration for the Board of Directors according to the valid regulations and instructions.
5. Upon recommendation of the Board of Directors, The General Assembly will decide partial distribution as an additional share in profits.
6. When determining the shares quota in net profits, the General Assembly may decide to form other reserves in such an amount that achieves continuous prosperity for the company or guarantees constant profit possible to shareholders.

Subsequently, The Board of Directors suggests distribution of 2008 net profits of

177,904,000 Saudi Riyals as follows:

	(1000) SR
Net Profit after deduction of Zakat	177,904
Less statutory reserve	17,795
	<hr/> 160,114
Less: first dividend of shareholders equal to 5% Paid capital (0.5 Riyals per share)	12,500
	<hr/> 147,614
Less: Board of Directors members remuneration	1,400
	<hr/> 146,214
Plus: Profit carried forward from last year	205,830
	<hr/> 352,044
Less: additional dividend for shareholders equal to 20% of the paid up capital (2 SR per share)	50,000
The remaining amount to be carried over to next year	<hr/> 302,044

### The Board of Directors Suggest the Following:

- First: Approving the contents of Board of Directors 2008 report.
- Second: Approving the financial statements of the company for the year 2008
- Third: Agree to the proposal of distributing to shareholders dividends equivalent to 25% of paid up capital. (SR 2.5 per share). Entitlement of shareholders to profit will be applicable to share owners as at the date of the annual assembly meeting.
- Fourth: Holding the members of the Board of Directors free of liability for managing the company during 2008.
- Fifth: Agree to license the member of Board of Directors Fahad Abdullah Al-Harbi to combine his membership of the Board of Directors and practicing his private competing business for a period of one year.
- Sixth: Appointing an external auditor from the candidates nominated by the audit committee to audit the financial statements for the fiscal year 2009, and the quarterly financial statements and defining his fees.

The Board of Directors takes this opportunity to thank you for attending this meeting. It also extends its sincere thanks to the Custodian of The Two Holy Mosques and the Crown Prince and to our Government for their support and encouragement. The Board of Directors also expresses its gratitude to the Company's Management and its personnel for their honest efforts which led to achieve these good results.

Best Regards.

### Board of Directors





## **INDEPENDENT AUDITORS' REPORT**

**To: THE SHAREHOLDERS OF  
SAUDI CERAMIC COMPANY  
Riyadh, Saudi Arabia**

### **Scope of Audit:**

We have audited the accompanying balance sheet of Saudi Ceramic Company "a Saudi Joint Stock Company" as of December 31, 2008 and 2007 and the related statements of income, cash flows and changes in shareholders' equity for the years then ended including the related notes from 1 to 23. These financial statements are the responsibility of the Company's management and have been prepared in accordance with the provisions of the regulations for companies and presented to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these 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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion:**

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

- present fairly, in all material respects, the financial position of Saudi Ceramic Company as of December 31, 2008 and 2007 and the results of its operations, cash flows and its changes in shareholder's equity for the years then ended in conformity with accounting principles generally accepted in Saudi Arabia.
- comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

**For Dr. M. Al-Amri & Co.**



Ghadah Al-Amri  
Certified Public Accountant  
Registration No. 362



Safar 14, 1430 H  
February 09, 2009 G

## BALANCE SHEET

		As of December 31,	
	Note	2008 SR'000	2007 SR'000
<b>Assets</b>			
Current assets			
Cash and cash equivalent	3	25,318	20,861
Accounts receivable, net	4	107,909	103,487
Inventories, net	5	351,095	283,046
Prepayments and other assets	6	27,542	21,743
<b>Total current assets</b>		<b>511,864</b>	<b>429,137</b>
<b>Non-current assets</b>			
Investments and financial assets	7	46,866	24,295
Projects under construction	8	243,474	280,734
Property, plant and equipment, net	9	760,762	553,766
Loan to associate company	10	1,750	-
<b>Total non-current assets</b>		<b>1,052,852</b>	<b>858,795</b>
<b>Total assets</b>		<b>1,564,716</b>	<b>1,287,932</b>
<b>Liabilities And Shareholders' Equity</b>			
<b>Current liabilities</b>			
Short term loans	11	195,000	305,000
Accounts payable		84,722	90,638
Notes payable due within a year		22,280	11,203
Accruals and other liability	12	57,336	50,883
Current Portion of Short term loans	14	63,361	22,533
<b>Total current liabilities</b>		<b>422,699</b>	<b>480,257</b>
<b>Non-current liabilities</b>			
Notes payable		809	19,972
Long term loans	14	391,693	151,888
Employees' end of service benefits		25,344	22,877
<b>Total non-current liabilities</b>		<b>417,846</b>	<b>194,737</b>
<b>Total liabilities</b>		<b>840,545</b>	<b>674,994</b>
<b>Shareholders' equity:</b>			
Share capital	1	250,000	250,000
Statutory reserve		107,877	90,087
Retained earnings		365,944	269,730
Unrealized gain from available-for-sale securities		350	3,121
<b>Total Shareholders' equity</b>		<b>724,171</b>	<b>612,938</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,564,716</b>	<b>1,287,932</b>

The accompanying notes 1 through 23 form an integral part of these financial statements

## STATEMENT OF INCOME

	Note	For the Years Ended December 31,	
		2008 SR'000	2007 SR'000
Net sales		857,106	614,958
Cost of sales		(536,547)	(389,556)
<b>Gross Income</b>		<b>320,559</b>	<b>225,402</b>
Selling and marketing expenses	15	(102,868)	(80,510)
General and administrative expenses	16	(34,941)	(27,138)
<b>Income from main operation</b>		<b>182,750</b>	<b>117,754</b>
Financing cost		(10,209)	(2,665)
Other revenues and expenses, net	17	12,369	15,723
<b>Net income before Zakat</b>		<b>184,910</b>	<b>130,812</b>
Zakat provision	13	(7,006)	(3,300)
<b>Net income</b>		<b>177,904</b>	<b>127,512</b>
<b>Earning (loss) per share in Saudi Riyal from:</b>			
<b>Main Operations</b>		<b>7.31</b>	<b>4.71</b>
<b>Other Operations</b>		<b>(0.19)</b>	<b>0.39</b>
<b>Net Income</b>		<b>7.12</b>	<b>5.10</b>

The accompanying notes 1 through 23 form an integral part of these financial statements



## Statement Of Cash Flows

	For the Years Ended December 31,	
	2008 SR'000	2007 SR'000
<b>Cash flows from operating activities:</b>		
<b>Net income before Zakat</b>	<b>184,910</b>	<b>130,812</b>
Adjustments to reconcile net income before zakat to net cash provided by operating activities:		
Revenues from investments in Associate company	(1,581)	(2,129)
Depreciation	76,655	58,681
Gain from sale of property, plant and equipment	(101)	(968)
Employees' end of service benefit provision	5,799	3,717
<b>Changes in operating assets and liabilities</b>		
Increase in accounts receivable	(4,422)	(16,994)
Increase in inventory	(68,049)	(71,056)
Increase in prepayments and other assets	(5,799)	(4,680)
(Decrease) Increase in accounts payables	(5,916)	27,116
Decrease in notes payable	(8,086)	(23,739)
Increase in accruals and other liabilities	1,874	8,623
<b>Cash from operations</b>	<b>175,284</b>	<b>109,383</b>
End of service benefit paid	(3,332)	(2,652)
Zakat paid	(4,193)	(3,140)
<b>Net cash flows provided by operating activities</b>	<b>167,759</b>	<b>103,591</b>
<b>Cash flows from investing activities:</b>		
Additions to investments and financial assets	(24,000)	(10,000)
Dividends received from associate company	239	438
Additions to property, plant, equipment and projects	(246,391)	(201,380)
Proceeds from sale of property, plant and equipment	101	968
<b>Net cash used in investing activities</b>	<b>(270,051)</b>	<b>(209,974)</b>
<b>Cash flows from financing activities:</b>		
Bank- overdraft	-	(12,883)
Net (settlements) proceeds of short-term loans	(110,000)	95,000
Net proceeds of long-term loans	280,633	95,486
Dividends paid	(62,134)	(64,119)
Loan for Associate Company	(1,750)	-
<b>Net cash provided by financing activities</b>	<b>106,749</b>	<b>113,484</b>
<b>Net increase in cash and cash equivalents</b>	<b>4,457</b>	<b>7,101</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>20,861</b>	<b>13,760</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>25,318</b>	<b>20,861</b>
<b>Non-cash transactions</b>		
(Loss) gain from revaluation of securities	(2,771)	3,121

The accompanying notes 1 through 23 form an integral part of these financial statements



## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital SR'000	Statutory Reserve SR'000	Retained Earnings SR'000	Unrealized Gains(Loss) SR'000	Total SR'000
<b>For the year ended December 31, 2008</b>					
Balance January 1, 2008	250,000	90,087	269,730	3,121	612,938
Dividends for 2007	--	--	(62,500)	--	(62,500)
Board of directors remuneration for 2007	--	--	(1,400)	--	(1,400)
Net income for the year	--	--	177,904	--	177,904
Transfer to Statutory reserve	--	17,790	(17,790)	--	--
Unrealized loss from available for-sale securities	--	--	--	(2,771)	(2,771)
<b>Balance at 31, December 2008</b>	<b>250,000</b>	<b>107,877</b>	<b>365,944</b>	<b>350</b>	<b>724,171</b>
<b>For the year ended December 31, 2007</b>					
Balance 1, January 2007	250,000	77,336	218,754	--	546,090
Dividends for 2006	--	--	(62,500)	--	(62,500)
Board of directors remuneration for 2006	--	--	(1,285)	--	(1,285)
Net income for the year	--	--	127,512	--	127,512
Transfer to statutory reserve	--	12,751	(12,751)	--	--
Unrealized gains from available for-sale securities	--	--	--	3,121	3,121
<b>Balance at 31 December 2007</b>	<b>250,000</b>	<b>90,087</b>	<b>269,730</b>	<b>3,121</b>	<b>612,938</b>

The accompanying notes 1 through 23 form an integral part of these financial statements



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

### 1. Organization And Activity

Saudi Ceramic Company, (the Company) is a Saudi Joint Stock Company established by the Royal Decree No, (M/16) on 25/4/1397H (corresponding to 14/4/1977G), registered in the Kingdom of Saudi Arabia under Commercial Registration No, 1010014590 issued in Riyadh on 15/2/1398H (corresponding to 24/1/1978G),

The Company is engaged in the production and sale of ceramic products, water heaters and their components. The Company is also involved in the import of related machineries, equipments and other accessories.

The authorized and fully paid-up capital of the Company is SR 250 million, divided into 25 million shares of SR 10 each.

The financial year of the Company commences on January 1, and ends on December 31 of each calendar year.

### 2. Summary Of Significant Accounting Policies

The accompanying financial statements have been prepared under the historical cost convention (except for investments in available for-sale financial instruments which are measured at fair value) on the accrual basis of accounting, in accordance with generally accepted accounting principles applicable in Saudi Arabia. Significant accounting policies adopted in the preparation of these financial statements are summarized below:

#### Accounting Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates and judgments which might effect the valuation of recorded assets, liabilities and the disclosure of contingencies at the balance sheet date. Although these estimates are based on the best information available to management at the date of issuing these financial statements, the actual end results might immaterially differ from those estimates.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, balances and deposits with banks, and other highly liquid investments with maturities of 90 days or less from its purchase date.

#### Accounts Receivable

Accounts receivable is stated net of provision. Provision is made for accounts receivable where recovery is considered doubtful based on the Company's approved policy.

#### Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined, on a weighted average cost basis. Cost of finished goods and work in process includes cost of materials, labor and an appropriate proportion of indirect overheads. Provisions for slow-moving and obsolete inventory are estimated based on the Company's approved policy.

Inventory items that are considered an integral part of the machinery and equipments such as strategic and stand-by spare parts are included in fixed assets.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

### Investments in Associates

Investments in associates where the Company has significant influence over the investee's financial and operation policies, or where the Company has a long-term investment between 20% and 50% of the equity, is accounted for using the equity method. Under the equity method, the investment is stated initially at cost and adjusted thereafter for the post acquisition changes in the net assets of the associates. The Company's share of profit in the associate company is recognized in the income statement.

### Investments in Financial Instruments

Investments in available for sale securities, which are neither held to maturity or for trading, are valued at fair value and are classified as non-current assets, unless the intention is to sell it in the following year. Changes in fair value of available for sale securities are taken to equity as a separate item. Permanent impairment, if any, of such investment is recognized directly in the income statement. Revenues from such investments are recognized when declared.

Fair value is determined by reference to the market value when an active trading market is available; else, if no active market is available, cost is considered the best substitute to fair value. If part of the investment is sold, cost is determined on weighted average basis.

### Capitalization of Financing Costs

The net financing cost of the Company's borrowings, is capitalized on qualified projects which require a substantial period of time to construct. Finance costs are computed by applying the capitalization rate to the average amounts spent on the projects during the period.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. Asset sold or otherwise disposed off and their related accumulated depreciation are removed from the accounts at the time of disposal and the related gain or loss is recognized in the income statement. The estimated operational useful lives are as follows:

	<u>Years</u>
Buildings	10 - 33.33
Machinery, equipment and spare parts	10 - 12.5
Vehicles and transportation equipments	4 - 6.66
Furniture, fixture and office equipment	6.66 - 10
Leasehold improvements	4

### Employees' End of Service Benefits

Employees' end of service benefits are provided on the bases of Saudi Arabian Labour Law and according to the employees' service duration.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

### Zakat

Zakat is accrued in accordance with the regulations of the Department of Zakat and Income Tax in KSA. Adjustments arising from final Zakat assessments, if any, are recorded in the year in which such assessments are made.

### Revenue recognition

Revenues from sales are recorded when goods are delivered and invoiced.

### Expenses

Sales and marketing expenses represent salaries and wages of the sales and distribution employees, marketing campaigns, sales costs and similar expenses. All other expenses not related to production or sales are classified as general and administrative expenses. Shared expenses are allocated between selling and general expenses using consistent basis.

### Statutory Reserve

In accordance with Regulations for Companies in Saudi Arabia and the company's articles of association, the company has established a statutory reserve by the appropriation of 10% of annual net income, this appropriation continues until the reserve equals 50% of the share capital, then it can be stopped. This reserve can not be distributed as dividends.

### Impairment of non-current assets

At each balance sheet date, the carrying amounts of non-current assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. If the recoverable amount of an assets or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the assets or cash-generating unit is reduced to its recoverable amount. Impairment loss is recognized as an expense in the statement of income immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of Income.

### Foreign Currency Translation

The Company maintains its accounts in Saudi Riyals, foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary 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.

### Earnings per Share

Earning per share is calculated using the weighted average of the shares outstanding during the period. All shares of the Company are nominal shares.





## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	December 31,	
	2008 SR'000	2007 SR'000
<b>3. Cash And Cash Equivalent</b>		
Cash on hand	546	550
Cash at banks	24,772	20,311
	<b>25,318</b>	<b>20,861</b>
<b>4. Accounts Receivable, Net</b>		
Trade accounts receivable (covered)	54,163	47,965
Trade accounts receivable (uncovered)	56,346	58,122
	<b>110,509</b>	<b>106,087</b>
Provision for doubtful accounts	(2,600)	(2,600)
	<b>107,909</b>	<b>103,487</b>
<b>5. Inventories, Net</b>		
Finished goods	107,648	82,380
Work in process	35,361	14,040
Raw materials	105,923	106,852
Purchased goods for resale	15,230	14,880
Spare parts	69,190	53,961
Goods in transit	22,153	20,885
	<b>355,505</b>	<b>292,998</b>
Provision for Slow Moving & Obsolete Items	(4,410)	(9,952)
	<b>351,095</b>	<b>283,046</b>
<b>6. Prepayments And Other Assets</b>		
Prepaid expenses	6,230	5,359
Refundable deposits	7,170	5,536
Employees' advances	2,260	649
Advance payments to suppliers	11,086	9,081
Others	796	1,118
	<b>27,542</b>	<b>21,743</b>

The Company uses the standard cost method for valuation of its cost of goods sold, finished production and work in process. Standard cost is adjusted when there are material variances between standard and actual costs inventory. Management believes that using this approach is appropriate for the Company's circumstances due to the nature of its products and method of production. The variance between standard and actual at the end of the year 2008 is immaterial.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

### 7. Investments And Financial Assets

#### Investment in Associates

Natural Gas Distribution Company (7 A)  
Ceramic Pipes Company (7B)

#### Available for Sale Securities

Gulf Real Estate Company  
Yanbu National Petrochemical (YANSAP)  
Real Estate Fund (7 C)

	December 31,	
	2008	2007
	SR'000	SR'000
	<b>7,586</b>	6,244
	<b>25,000</b>	10,000
	<b>32,586</b>	16,244
	<b>4,200</b>	4,200
	<b>1,080</b>	3,851
	<b>9,000</b>	-
	<b>14,280</b>	8,051
	<b>46,866</b>	24,295

#### Investment in Associates

7 A) The Company held 15,87% of the share capital of Natural Gas Distribution Company "a Limited Liability Company" amounting to SR 15 million. The main activity of the associate is to purchase and distribute gas to the factories in the Second Industrial City in Riyadh. The investment is accounted for using the equity method because the Company has significant influence over the investee by major representation in the board of directors.

7 B) The Company participated in establishing the Ceramic Pipes Company "a closed joint stock Company" with 50% share of its SR 100 million fully subscribed share capital. The issued capital is SR 80 million (2007: SR 50 million). The Company has paid SR 25 million in cash for its share (2007: SR 10 million) and the remaining amount of SR 15 million was paid in-kind and the legal procedures to transfer it in the name of Ceramic Pipes Company is under process.

#### Investment in Available for Sale Securities

7 C) The Company owns 900,000 units of the Kasab Taiba Real Estate Parcel Fund for SR 10 each.

### 8. Projects Under Construction

Ceramic plant expansion	<b>88,475</b>	209,304
Sanitary ware plant expansion	<b>47,978</b>	26,640
Water heaters plant expansion	<b>74,710</b>	12,577
Others	<b>32,311</b>	32,213
	<b>243,474</b>	280,734

Net financing cost capitalized on projects under construction during the year amounted to SR 12 million (2007: SR 18 million).

The net financial costs capitalized on the projects during the year are SR 12 million (2007: SR 18 million).



The advertisement features a blue and white color scheme. At the top, it displays the company name in Arabic "ساعات الخزف السعودي" and English "Saudi Ceramics Water Heater" alongside a logo. Below this, a row of international certification logos (SASO, CE, GS, PG, SON) is shown. The central part of the ad shows four different models of white water heaters: two vertical and two horizontal. To the left of the heaters is a globe with location pins. The text "World-Class Quality" is prominently displayed on the right. At the bottom right, there is a "100%" logo with an eye icon.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

### 9. Property, Plant And Equipment, Net

	Land SR'000	Buildings SR'000	Machinery, Equipment and Spare Parts SR'000	Furniture and Fixture SR'000	Vehicle & Transportation Equipments SR'000	Leasehold Improvements SR'000	Total SR'000
Cost							
At January 1, 2008	50,336	432,950	642,410	27,753	39,508	11,932	1,204,889
Additions	59,855	37,561	175,827	2,117	7,848	443	283,651
Disposals	-	-	-	(27)	(272)	-	(299)
At December 31, 2008	110,191	470,511	818,237	29,843	47,084	12,375	1,488,241
Accumulated Depreciation							
At January 1, 2008	-	(255,262)	(338,754)	(21,882)	(25,869)	(9,356)	(651,123)
Charge for the year	-	(15,079)	(51,768)	(1,850)	(6,606)	(1,352)	(76,655)
Disposals	-	-	-	27	272	-	299
At December 31, 2008	-	(270,341)	(390,522)	(23,705)	(32,203)	(10,708)	(727,479)
Net Book Value							
December 31, 2008	110,191	200,170	427,715	6,138	14,881	1,667	760,762
December 31, 2007	50,336	177,688	303,656	5,871	13,639	2,576	553,766

All plant assets are pledged to the Saudi Industrial Development Fund (SIDF) against the loan provided to the Company. Certain buildings owned by the Company are built on land leased from the Government for a period between 10 to 30 years at nominal values and are renewable for similar periods.

Land includes a plot of land with a cost of SR 12.57 million which will be transferred to the name of an associate Company as an in-kind payment against part of the Company's share in the associate Company capital (note 7 B).

### 10. Loan to Associate Company

The company agreed with the Natural Gas Distribution Company (an associate company) to give it a free-interest loan amounting to SR 1.75 million, as contribution in the project cost of supplying natural gas to the company factories at AlKharj road. The associate company will repay the loan when the consumption of Natural Gas reaches 50% of the agreed allocated quantities.

### 11. Short Term Loans

Short term loans represent the Islamic Murabaha loans offered to the Company by local commercial banks in accordance with agreed rates guaranteed by promissory notes in favour of the banks for the loan values.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

### 12, Accruals and Other Liability

	As of December 31,	
	2008	2007
	SR'000	SR'000
Employees accruals	23,194	19,661
Accrued expenses	9,264	8,158
Customer advances	10,253	10,253
Dividends payable	4,263	3,897
Zakat provision (note 13)	6,150	3,337
Others	4,212	5,577
	<u>57,336</u>	<u>50,883</u>

### 13. ZAKAT PROVISION

Zakat base comprises of the following:

#### 12, Accruals and Other Liability

	For the Years Ended December 31,	
	2008	2007
	SR'000	SR'000
Shareholders' equity	545,917	485,426
Net adjusted income	177,904	127,512
Additions	417,846	194,192
Deductions	(895,879)	(673,649)
	<u>245,788</u>	<u>133,481</u>

Changes in Zakat provision is as follows:

Balance at the beginning of the year	3,337	3,177
Payments made during the year	(4,193)	(3,140)
Prior years Zakat adjustments	856	(37)
Provision for the year	<u>6,150</u>	<u>3,337</u>
	<u>6,150</u>	<u>3,337</u>

#### Zakat status

The Company has obtained the zakat final certificate up to the year 2007. The Zakat assessments have been agreed with the Department of Zakat and Income Tax (DZIT) up to the year ended December 31, 2004. The final zakat assessments for the years 2005 to 2007 have not received from DZIT.





## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

14. Long Term Loans	As of December 31,	
	2008 SR'000	2007 SR'000
Loan from Saudi Industrial Development Fund	91,941	94,421
Loan from local bank	363,113	80,000
Total loan	455,054	174,421
<b>Less: Current Portion</b>		
Loan from Saudi Industrial Development Fund	(16,300)	(14,200)
Loan from local bank	(47,061)	(8,333)
<b>Total Current Portion</b>	(63,361)	(22,533)
<b>Total non-current Portion</b>	391,693	151,888

### Saudi Industrial Development Fund (SIDF) Loans

The Company obtained loans from SIDF to finance its tiles and sanitary ware plants against pledging all those plants fixed assets. The agreement with SIDF includes terms related to financial ratios.

The total loan amount relating to the 13th unified loan agreement amounted to SR 483.67 million (maximum limit for the loans). The outstanding revised loan balance as at the date of the 13th unified loan agreement (December 2007) amounting to SR 183.3 million is payable on unequal semi annual instalments commenced 15/4/1429H corresponding to 22/4/2008G and will end on 15/10/1436H corresponding to 31/7/2015G.

The total SIDF available and not utilized facility as at December 31, 2008 amount to SR 77.16 million (2007: SR 88.88 million). The due date for utilizing the remaining amounts of the facility is 29/12/1429H corresponding to 27/12/2008G, and negotiation for utilizing date is under process.

The changes in SIDF loans during the years ended December 31, 2008 and 2007 were as follows:

	2008 SR'000	2007 SR'000
Balance at the beginning of the year	94,421	78,935
Loans received during the year	11,720	27,986
Settlements made during the year	(14,200)	(12,500)
Balance at the end of the year	91,941	94,421

### Local Bank Loan

The Company obtained a long term Islamic Murabaha loans facility from local commercial banks for a total amount of SR 371 million for the purpose of financing the expansion of its plants. The bank loans is guaranteed with promissory notes in favour of the banks. The loans charges are determined based on the Murabaha agreement and the loans repayment will be made on unequal semi annual instalments starting 21/10/2009G and will end on 16/05/2014G.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	For the Years Ended December 31,	
	2008 SR'000	2007 SR'000
<b>15, Selling And Marketing Expenses</b>		
Salaries, wages and related costs	39,558	32,082
Freight and transportation charges	33,641	23,008
Advertisements	7,542	5,387
Depreciation	7,466	7,706
Administrative and office expenses	4,934	4,352
Rent	4,796	4,376
Energy	896	969
Repair and maintenance	1,721	1,518
Others	2,314	1,112
	<b>102,868</b>	<b>80,510</b>

<b>16, General And Administrative Expenses</b>		
Salaries, wages and related costs	23,509	18,905
Depreciation	1,897	2,272
Administrative and office expenses	3,831	3,364
Provisions	4,800	1,920
Repair and maintenance	833	602
Energy	71	75
	<b>37,941</b>	<b>27,138</b>

The expenses and meetings' attendance allowances for the board of directors and other committees of the board amounted to SR 293K during the year (2007: SR 302K).

	For the Years Ended December 31,	
	2008 SR'000	2007 SR'000
<b>17, Other Revenues And Expenses, Net</b>		
Revenues from Investment in associate company	1,581	2,129
Gain from property sales	101	968
Revenues from materials sales	6,075	4,487
Others, net	4,612	8,139
	<b>12,369</b>	<b>15,723</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

### 18. Related Parties

The Company in its ordinary course of business deals with some of its related parties. The Company purchase gas from its associate Company Natural Gas Distribution Co. and sells its products to Yara Trading Company, a Company owned by a board member. Transactions with related parties are executed with terms similar to those who are not related. Moreover, the Company finance part of the expenses related to the Ceramic Pipes Company (an associate Company) during its formation period. The details of transactions and balances of related parties during 2008 were as follows:

	Transaction type	Balance 1/1/2008 SR'000	Transaction Value SR'000	Payments and Receipts SR'000	Balance 31/12/2008 SR'000
Natural Gas Company	Purchases	1,349	16,924	(16,660)	1,613
Yara Trading Company	Sales	1,054	14,905	(13,614)	2,345
Ceramic Pipes Company	Financing	2,100	3,026	(5,126)	-

### 19. Contingent Liabilities And Commitments

The Company has obtained bank facilities in the form of letters of credit and guarantees from local banks amounting to SR 105 million (2007: to SR 105 million). Additionally, the Company provided SR 1.87 million (2007: 1.87 million) as a partial guarantee for SIDF loan to one of its associate Companies. The guarantee provided is proportionality equivalent

to the Company's share in the associate Company capital. Subsequent to the balance sheet date the company provided another partial guarantee for an SIDF loan for another associate company amounting to SR 51.2 million proportionality equivalent to the Company's share in the associate Company capital.

The Company's capital commitments relating to its plant expansion and machineries as at December 31, 2008 amounted to approximately SR 108 million (2007: SR 118 million).

### 20. Segment Information

A segment is a major component of a business that sells/provides certain services (business segment) or sells/provides services in a particular economic environment (Geographical Segment) and its profits and losses are different from those of other business segments. The Company follows the business segment as a base for reporting its segment information which is consistent with its internal reporting purposes. The Company is developing a system which will provide detailed segment activity information.

The main segments of the Company are ceramic tiles, sanitary ware and water heaters. Information related to each segment is as follows:



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	Ceramic Tiles And Sanitary Ware SR'000	Water Heaters SR'000	Total SR'000
<b>For the year ended December 31, 2008:</b>			
Total assets	1,420,809	143,907	1,564,716
Total liabilities	803,095	37,450	840,545
Sales	671,737	185,369	857,106
Gross income	280,390	40,169	320,559
Net income	158,657	19,247	177,904
<b>For the year ended December 31, 2007:</b>			
Total assets	1,169,411	118,521	1,287,932
Total liabilities	646,047	28,947	674,994
Sales	475,358	139,600	614,958
Gross income	193,207	32,195	225,402
Net income	113,254	14,258	127,512

### 21. Approval Of Financial Statements

The board of directors approved these financial statements in their meeting held on 14/2/1430H corresponding to 09/02/2009G.

### 22. Proposed Dividends

The board of directors, in their meeting held on 29/12/2008G, proposed cash dividends to the shareholders for the year 2008 amounting to SR 62.5 million which is SR 2.5 for each share representing to 25% of the company capital (2007: SR 62.5 million which is SR 2.5 for each share). The board of directors' remuneration for the year amounted to SR 1.4 million (2007: SR 1.4 million). Cash dividends for this year require the approval of the general assembly of the Company.

### 23. Comparative Figures

Certain reclassifications have been made to the comparative figures to conform with the current year presentation.



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