





شركة الخزف السعودية
Saudi Ceramic Company

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Website: www.saudiceramics.com

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.: 6292424 Fax: 6299202
Altahlaya Showroom: 6690055
Al-Harmin Rd. Showroom: 6292424
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 Abdulaziz Al Saud



His Royal Highness
Naif Bin Abdulaziz Al Saud
The Second Deputy Prime Minister
and the Minister of Interior



His Royal Highness
Crown Prince Sultan Bin Abdulaziz Al Saud
The Deputy Premier and the Minister of
Defence and Aviation and Inspector General

Board Of Directors





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-Khelaifi
Board Member



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



Fahad Abdullah Al-Harbi
Board Member

شركة الخزف السعودية
Saudi Ceramic Company
A Saudi Joint Stock Company



Executive Committee

Khalid Saleh Al Rajhi

Board Member

Fahad A. Al-Howaimel

(General Organization for Social Insurance)

Board Member

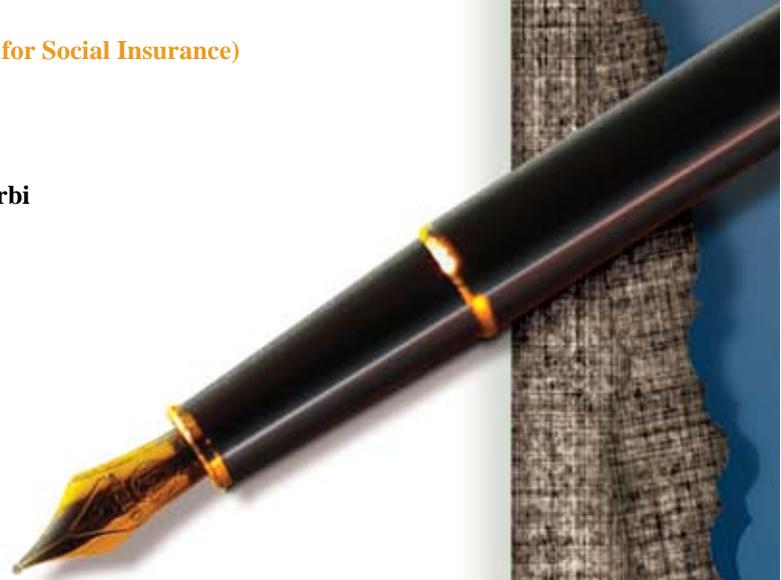
Fahad Abdullah Al-Harbi

Board Member



Abdulkarim Al nafie

CEO





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Annual Report For 2009

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Chairman's Statement



Dear Shareholders,

On behalf of the Board of Directors, I would like to welcome you. Saudi Ceramic Company has made great progress towards the achievement of good results in production, marketing and profitability. I am pleased to inform you that the year 2009 has been the best in the history of the Company. During this year, new records have been accomplished, and all budgeted figures have been attained.

Despite the world financial crisis that had its impact on many countries and on some of the regional economic sectors, the Company achieved a new sales record for the year 2009 which totaled SR 957.7 million, an increase of 12% compared to 2008. The average sales growth during the last five years totaled 23% per year. The Saudi Ceramic Company continues to provide its products to its customers through 24 showrooms in most of the cities of the Kingdom, in addition to a wide network of distributors in different parts of the Kingdom.

Besides, the Company is working continuously for expanding the sphere of its exports to foreign countries. During 2009, exports totaled an amount of SR126.6 million compared SR 124.7 million in 2008. The Company opened new markets in Madagascar, Togo, Macedonia and Congo as well.

The Company has carried out its operations with the full available capacity, and production has achieved new records by an increase of 10% in tiles, 35% in water heaters, and 4% in sanitary ware. SCC is constantly working for the development of its factories utilizing the latest technology in order to achieve high quality and productivity. By virtue of expanding all of its factories, the annual production capacity of tile factories in 2010 will reach 42 million square meters, 38,000 tons in sanitary ware and 1.5 million water heaters, in addition to two Frit plants for glazing tiles whose production capacity would reach 33,000 tons. This will contribute to localization of Frit industry and reduction of cost as well as minimizing dependency on imported products.

Furthermore, the Company has realized in 2009 a net profit of SR197.2 million against SR177.9 million in 2008. The earnings per share were SR7.89 in 2009. This represents an average growth rate of 24% per annum in the last five years. The Board of Directors assures the share holders, that the Company's drive to achieve its objectives is unquestionable.

In the field of manpower and training, the Company is in constant contact and coordination with the Human Resources Fund for the purpose of Saudisation. In this regard, the Company signed a new agreement in 2009 with this HR Fund to attract & recruit 138 Saudi trainees. In this year, it employed 185 Saudis; and the total number of Saudis working in the company is now (615) employees, an increase of 14% compared to their number at the beginning of 2009. On the other hand, the Company Training Center carried out 34 training courses during 2009, of which 14 courses were organized with training centers outside the Company, and 20 courses were held at the company training center.

Last but not least, on behalf of our valued shareholders, it gives me pleasure to take this opportunity to express my sincere gratitude and appreciation to the Custodian of The Two Holy Mosques, the Crown Prince and Our Government for their continuous support & assistance to our Company.

My gratitude is also extended to our esteemed customers inside and outside the Kingdom for their trust in the Company and its products. I also would like to thank the Company staff members & management for their sincere efforts and devotion which culminated in these excellent results.

Saad Ibrahim Al-Moajel

Chairman of the Board of Directors

The Board of Directors Report

To the Thirty Second Ordinary General Assembly to be held on Monday 6th Rabi-AL Akher 1431H (22nd March 2010) 6:00 pm, at Makarim 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 32nd ordinary general assembly. The Board of Directors is hereby presenting to you the annual report together with the financial statements for the year 2009, including the company's balance sheet as on 31st December 2009 plus the income & cash flow statements for this year, changes in shareholders equities as well as the explanatory notes for those statements for the year ending thereof.

The Company's 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. For achieving its purposes, the company owns real estates, transferable assets and may enter into agreements and contracts that achieve its objectives within the limits of applicable regulations.

The Corporate Business Results:

The company achieved new records in all fields of production, marketing and profitability. The year, 2009, is the best in its history in terms of performance and the achievements of its targets. The company also achieved its targeted figures according to the planned budget of 2009 as follows:

1. The operational profit increased by 12% compared to last year 2008. Below is a chart showing the operational profits, investments profits & other revenues of 2009 compared with 2008:



	2009 (1000 Riyals)	2008 (1000 Riyals)
Operational Profits	185,357	165,535
Investments Profits & other Revenues	11,836	12,369
Total Net Profit	197,193	177,904



1.1 Business Results according to type of Activity:

	2009 (1000 Riyals)	2008 (1000 Riyals)
Ceramic Products	172,628	158,657
Water Heaters	24,565	19,247
Total	197,193	177,904

1.2 Geographic analysis for the Company's Revenues:

	2009 (1000 Riyals)	2008 (1000 Riyals)
Saudi Arabia	831,080	732,825
Foreign Exports	126,645	124,281
Total	957,725	857,106

The Company's Sales Improvement

The company's sales are growing continuously and steadily. During the year 2009, its sales set a new record amounting to SR 958 million, an increase of 12 % compared to 2008 sales. Below is a statement of the Company sales for the last five years which show an average annual growth of 23%:

<u>Year</u>	<u>Sales / (1000 Riyals)</u>
2005	425,374
2006	500,378
2007	614,958
2008	857,106
2009	957,725

The Company continues to introduce its products to its customers in most cities of Saudi Arabia through 24 showrooms in addition to a wide network of distributors a cross all parts of the Kingdom. In 2009 the company opened a new showroom in Al –Harmain Street in Jeddah and upgraded and reinforced its office at Dubai. The sales of this office increased by 25% in 2009 compared to 2008 sales. The Company signed an agreement with one of the famous design houses specialized in developing unique designs and sizes for ceramic tiles which have been added to the current range of designs and sizes. The Company continues its endeavor towards expanding its exports to foreign markets. The products exported to foreign markets during the year 2009 totaled SR 126.6 million despite the world economic crisis. During 2009 the company products reached new markets in Madagascar, Togo, Macedonia and Congo

During 2009, the company factories operated at full production capacity, without any noticeable stoppage in production lines. The factories achieved 10% increase in the production of tiles, 4% increase in sanitary ware & 35% increase in water heaters compared with 2008 production.

Expansion of the Company Factories:

The Company is focused on using the latest technologies when choosing and selecting new machinery and equipment of high quality and productivity as well as upgrading and replacing current machines. In its last year 2008 report, the Board of Directors pointed out that work is under progress to replace the old tiles line in the first factory whose capacity totals 600,000 square meters by a new line whose annual capacity is 2 million square meters. Today, we are pleased to inform you that this project has been completed and its first production started in March 2009. Its production in 2009 totaled 1.3 million square meters.

The Board of Directors also approved a new project for the establishment of a new production line at the first tile factory with the availability of all infrastructures with an annual capacity of 1.3 million square meters. Machinery and equipment have arrived, and they are being installed and it is expected that the project will be completed and ready to start production in the early part of the 2nd quarter of 2010.



Furthermore, work is under progress for the implementation of the first stage of the Tile Fourth Factory Project - with total production capacity (for 2 stages) of about 17 million square meters a year – according to the plan. The first stage will be completed and is expected to start production at the end of the 3rd quarter of the year 2010, and thus the annual production capacity of the tile plants will become 42 million square meters.

The company also signed a contract to purchase and install a new kiln at the Frit Plant for glazing tiles with an annual production capacity of 6,600 tons. This project is expected to be completed and to commence production before the end of 2010 coinciding with the completion of the tile Plant expansion projects after which the total production capacity will be 33,000 tons a year. This project will contribute to establishing the manufacture of frit as a national industry, reducing the cost and minimizing dependency on imports.

The company had already imported new kiln equipment for the sanitary ware factory with annual capacity of about 10,000 tons. The final stages of the kiln are being installed and it is expected to start production during the 1st quarter of 2010, after which the total production capacity of sanitary ware factories will be 38,000 tons a year.

The implementation of the second factory for water heaters has already been completed and production started in the last quarter of 2009 with an annual production capacity of half a million water heaters, which increases production capacity to 1.5 million heaters a year.

Future Expectations and Potential Risks:

The company operations are going on in accordance with the strategic plans drawn by the Board of Directors. After the completion of the factories' expansion projects pertaining to 2010, the production capacity of tile factories is expected to become 42 million square meters per year, and the production capacity for the sanitary ware factory will be 38,000 tons, and the water heater factories will be 1.5 million units per year.

The possibility of facing shortage in gas and electricity according to the required quantity as well as trained manpower or failure of factories, for any reason, is a potential risk in operating the factories although their



incidence is improbable. Besides, the marketing risks resulting from foreign imports and local competition should be considered, especially dumping practices by some foreign countries. The management is working hard to prevent in advance such risks and resolving them in case of their occurrence.

Loans of Saudi Industrial Development Fund (SIDF):

During 2009, the company received SR88.7 million from the SIDF loans for financing the tiles, sanitary ware and water heater factory expansion projects. The company also repaid to SIDF the due installments during 2009 amounting to SR 16.3 million. The total Fund's loan balance at the end of 2009 amounted to SR164.3 million.

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 extended to the company which led to the accomplishment of all the expansion projects.

Bank Loans:

During 2009, 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 the end of 2009 amounted to SR 523 million, while at the end of 2008 it was SR 558 million. The loans received during 2009 totaled SR 303 millions. The company repaid SR 338 million during the same year.





Manpower & Training:

During 2009, the company signed a new agreement with the Human Resources Fund within the framework of the Saudization project for attracting and Saudisation of 138 trainees according to training programs connected with employment. The company is working for the execution of this agreement. The total number of Saudis employed during 2009 was 158, while the total number of Saudis working for the company now totaled 615 employees, an increase of 10% more compared to the beginning of the year. The Company is working to attract, train and qualify Saudi labor. During 2009, the HR Department held 34 training courses, of which 14 training courses were provided with training centers outside the Company in different specializations, while the Company's training center provided another 20 training courses. The number of trainees totaled 261 during 2009.

Investments in Other Companies:

The balance at the end of 2009 represents investments in associate companies (Natural Gas Distribution Company and Ceramic Pipes Company (CPC)) with an amount of SR 44.4 million, beside investments in available -to-sell securities of SR 15.6 million.

Voting Rights & Credit Instruments:

In accordance with legal regulations and formalities, the Company facilitates the shareholder's practice of his voting right without imposing any procedures that may hinder the use of this right.

During 2009, there were no credit instruments issued by the company. There are not any option rights or subscription rights or interest for the members of the Board of Directors or chief executive or members of their families in the company's shares. 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 2009. There is not any redemption, purchase or cancellation by the company of any revocable credit instruments. There are not any arrangements or agreements under which any of the shareholders assign any of their dividends. Nor are there any assignment arrangements or agreements under which any of the Board of Directors or any one of the executives may assign any of their rights or allowances.





Zakat:

The company submitted its annual Zakat declarations and financial statements up to 2008 and it has also paid the payable amounts subject to these declarations. It obtained a certificate up to the end of 2008. It has received the final assessment for the years from 2004 to 2007 which showed differences against which objection will be submitted at the Zakat and Income Department subject to regulations. The Company believes that the accrued provision is sufficient to cover the Zakat liability that might result. Moreover the Company is following up the issuance of 2008 Zakat assessment.



Other Regular Payments:

There are not any other regular payments payable by the Company to different authorities of the State.

Board of Directors:

In accordance with the company's Article of Association, the members of the Board of Directors are appointed by the General Assembly of the company's share holders for three years. The current Board members had been appointed by the General Assembly held on the first of April 2007. Bellow is a table of 2009 Board of Directors members, their equities & change in their equities during 2009:

S. No.	Member Name	No. of Shares		No. of Shares (Wife & Dependent Children)	
		31/12/2009	31/12/2008	31/12/2009	31/12/2008
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	-	-
5	Khalid Saleh Al-Rajhi	1,000	1,000	-	-
6	Suleiman Mohammed Al-Khelaifi	4,000	4,000	20,000	25,000
7	Fahad Abdullah Al-Harbi	2,000	2,000	-	-



Senior Executives:

	No. of Shares		Wife's & Dependent Children's Shares	
	31/12/2009	31/12/2008	31/12/2009	31/12/2008
Senior Executives Shares:	1200	1000	500	500

Board of Directors members participating in Boards of other public Stock Companies:

S. No.	Member Name	Name of Other Listed Joint Stock Companies
1	Saad Ibrahim Al-Moajel	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 Mohammed Al-Khelaifi	N/A
7	Fahad Abdullah Al-Harbi	N/A

Board of Directors Meetings:

The Board of Directors held (5) meetings during 2009. The attendance of these meetings was as follows:

S. No.	Member Name	Classification	No. of Meetings	Attendance (%)
1	Saad Ibrahim Al-Moajel	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-Khelaifi	Independent, non-executive	5	100
7	Fahad Abdullah Al-Harbi	Independent, non-executive	5	100

Executive Committee:

The executive committee consists of three members chosen by the Board of Directors from its members. Their membership in the committee expires 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 the 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 made and signed by the committee's members & presented to the Board of Directors in its next nearest meeting.

Current Executive Committee Members:

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

The executive committee held (12) meetings during 2009 & the attendance percentage was 94.4% as follows:

S. No.	Member's Name	No. of Meetings	Attendance (%)
1	Khalid Saleh Al-Rajhi	11	92%
2	Fahad Abdulrahman Al-Howaimel (GOSI representative)	11	92%
3	Fahad Abdullah Al-Harbi	12	100%

Remunerations, Salaries & Allowances:

Items	Board Executive Members	Board non-executive Members	5 Senior Executives Including CEO & Financial Manager received Highest remunerations & Compensations
Salaries & Compensations	-	-	2,523,816
Allowances	-	275,000	687,927
Periodical & Annual Remunerations	-	1,400,000	3,364,790
Incentive Plans	-	-	540,936
Other Merits	-	-	-
Total	-	1,675,000	6,117,469

Note: Board of Directors membership remuneration for 2009 will be paid from 2009 profits distribution after the 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 who are not Board members. Among the main tasks of the audit committee are ensuring the adequacy and efficiency of the internal control procedures, ensuring financial statements integrity and validity, recommending the selection of external auditors 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 (5) meetings during 2009 and attendance percent was 100%.

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 the Board of Directors term. The nomination & remuneration committee member should own a number of shares, the nominal value of which is not less than SAR 2,000.





Among the tasks of the nomination and remuneration committee is a recommendation for the Board membership in accordance with the approved policies and criteria as well as preparing a 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 for the remaining period of its term the first

Nomination & remuneration committee of the following (4) members, as follows:

- | | |
|---------------------------------|------------------------------------|
| 1. Khalid Salih Al-Rajhi | Non-executive Board member |
| 2. Abdullah Mohammed Al-Qahtani | Non-executive Board member |
| 3. Mohammed Imran 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 2009 with 100% attendance.

Conflict of Interests:

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 made to the benefit of the company during 2009.

The company has not offered any cash loan of any kind to any of the Board of Directors members nor has it guaranteed any loan made by any of the Board's members.

During the financial year 2009, the purchases of Saudi Marble and Granite Factory (YARA) - a company owned by a Board of Directors member, Fahad Abdullah Al-Harbi, - totaled SR 23,772,638 and the factory's debit balance at the end of the year was SR 2,940,557. The Board of Directors consent was taken for that and was recorded in the company minutes. The General Assembly of the company shareholders held on 22/3/2009 had agreed to allow for the above mentioned Board of Directors 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 did not impose on the Company any financial penalties or precautionary restrictions whatsoever.

The Company Accounts & Internal Audit System:

The company has an internal audit department. The internal audit system was established on proper basis and was efficiently 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 Directors assures that it has no doubts at all concerning the company's ability to pursue its activity.

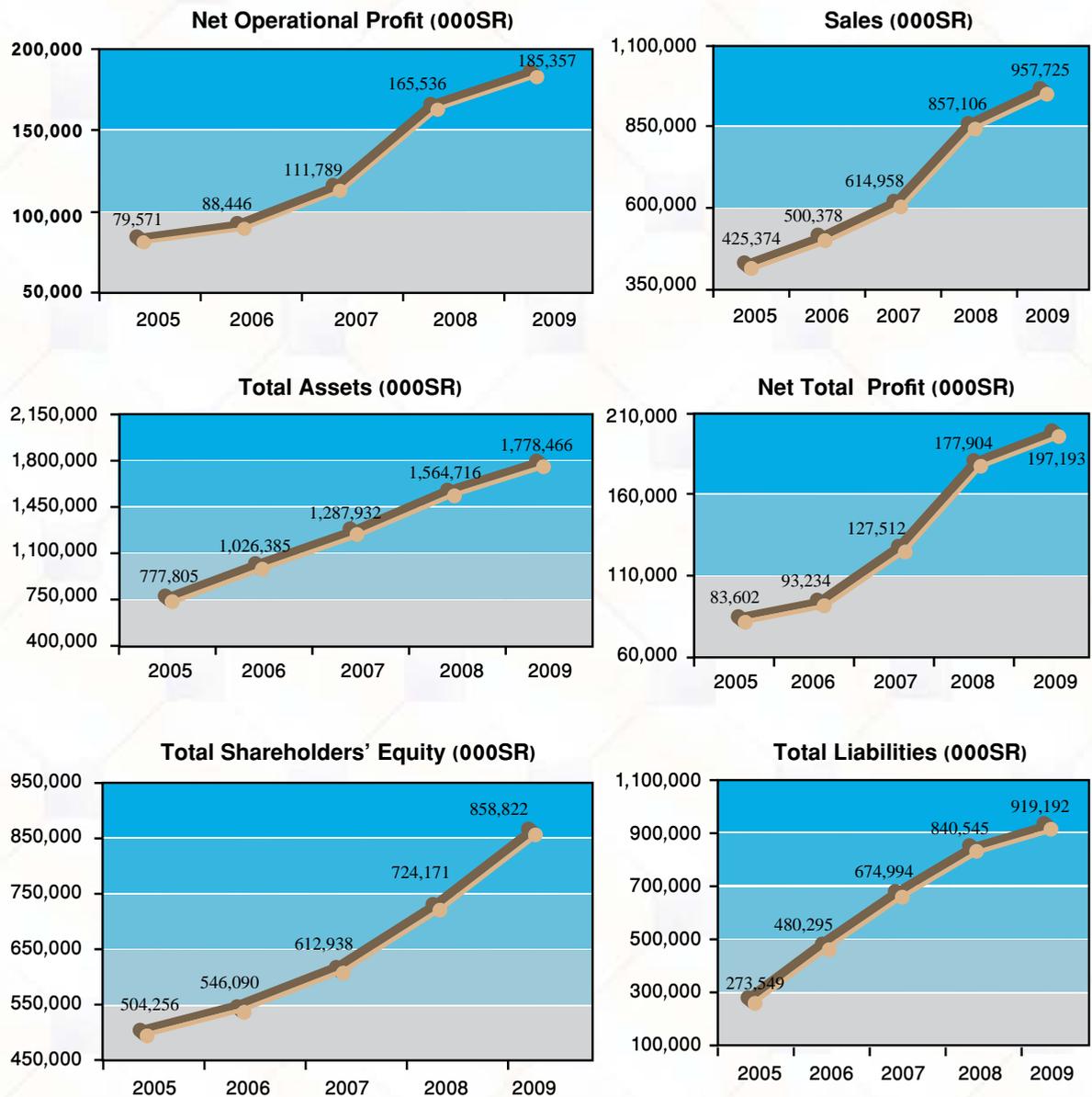
The External Auditors:

The General Assembly shareholders of the Company held on 23/3/2009 reappointed the office of Messrs/ Dr. Mohammed Al-A'mri & Co. Office for the 3rd year successively for auditing the company accounts for the year 2009 according to the audit committee recommendation.





The company's activity during the Last 5 Years



Other Financial Indicators

	2005	2006	2007	2008	2009
net profit ratio to Asssets	11.0%	9.0%	9.9%	11.4%	11.1%
Net profit ratio to shareholders' equity	17.0%	17.0%	20.8%	24.6%	23.0%
total profit Ratio to sales	38.7%	37.1%	36.7%	37.4%	36.8%
Net Profit ratio to sales	19.7%	18.6%	20.7%	20.8%	20.6%
Net Operational profit ratio to sales	18.7%	18.1%	18.2%	19.3%	19.4%
Net profit per share in SR	3.34	3.73	5.10	7.12	7.89



Corporate Governance:

The company applies, in general, all rules of the Corporate Governance

Regulations, bearing in mind the following:

- 1- Clause (d) of article VI concerning disclosing the persons of legal capacity acting on behalf of others – stating their policy for voting and their actual voting in their annual reports..etc....: The company has not received such disclosure from any party.
- 2- Clause (d) of article X concerning setting policies, clear standards and procedures for the membership in the Board of Directors: The Company has not set them yet.
- 3- Clause (p) of article XII concerning persons having legal capacity who have the right - pursuant to the company system - to nominate their representatives in the Board of Directors: The Company's system does not give this right.
- 4- The company did not apply Clause (B) concerning compliance with the cumulative voting method when voting for choosing Board members in the General Assembly because it is not mentioned in the Company Article of Associations or Corporate Statutes or any other binding regulation.

Statutory Reserve:

Clause (2) of Article (53) of the Company's Articles of Association provides for keeping aside 10% of net profits as statutory reserve, and the ordinary General Assembly may suspend this when the said reserve is equal to half the capital. And since the statutory reserve has totaled SR 125 million and is equal to 50% of the Company's capital, the Board of Directors suggests that you agree on suspension of keeping aside 10% of profits that are added to regular reserve because it has already reached 50% of the capital.

Profits Distribution Policy for 2009:

During 2009, the company achieved new records after Zakat net profit amounting to SR197.2 million against SR177.9 million in 2008. The company net profits are distributed after deducting all the expenses and liabilities as follows:

- 1- Deducting Zakat.
- 2- Keeping aside 10% of net profits for statutory reserve. The General Assembly has the right to stop this whenever the reserve amount reaches half the capital.
- 3- Distribute to shareholders a first batch equivalent to 5% of the paid up capital.
- 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 a 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 the constant profits possible to shareholders.





The Board of Directors suggests distribution of 2009 net profits amounting to SR 197,193,000 as follows:

	Saudi Riyals
Net Profit after deduction of Zakat	197,193,000
Less: stationary (statutory) reserve	17,123,000
	<u>180,070,000</u>
Less: first dividend of shareholders equal to 5% Paid capital (0.5 Riyals per share)	12,500,000
	<u>167,570,000</u>
Less: Board of Directors members remuneration	1,400,000
	<u>166,170,000</u>
Plus: Profit carried forward from last year	302,044,000
	<u>468,214,000</u>
Less: additional dividend for shareholders equal to 25% of the paid up capital (SR 2.5per share)	62,500,000
The remaining amount to be carried over to next year	<u>405,714,000</u>

The Board of Directors Suggest the Following to you:

First: Approving the contents of Board of Directors 2009 report.

Second: Ratifying the financial statements of the company for the year 2009.

Third: Agree on the suspension of keeping aside 10% of profits with a view to form a statutory reserve since the reserve balance has totaled half the capital.

Fourth: Agree to the proposal of distributing to shareholders dividends equivalent to 30% of paid up capital (SR 3 per share). Entitlement of profits will be to share owners at the end of the day of the annual assembly meeting.

Fifth: Holding the Board members free of liability for managing the company during 2009.

Sixth: Agree to license the Board member, Fahad Abdullah Al-Harbi, to combine his membership to the Board of Directors and practicing his private competing business for a period of one year.

Seventh: Appointing an external auditor from the candidates nominated by the audit committee to audit the financial statements for the fiscal year 2010, and the quarterly financial statements as well as defining his fees.

Eighth: Electing a new Board for the next session for a 3-year term.

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 Holly 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 the achievement of these good results as well as to the Company's customers for their continuous confidence and support..

Best Regards.

Board of Directors







Saudi Ceramic Company
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS FOR THE
YEARS ENDED DECEMBER 31, 2009 AND 2008



Dr. Mohamed Al-Amri & Co.
Accountants & Consultants

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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, 2009 and 2008 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, 2009 and 2008 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.

Gihad Al-Amri
Certified Public Accountant
Registration No. 362



Safar 23, 1431 H
February 07, 2010 G



BALANCE SHEET

	Notes	As of December 31,	
		2009	2008
		SR'000	SR'000
ASSETS			
Current assets			
Cash and cash equivalent	3	35,718	25,318
Accounts receivable, net	4	109,203	107,909
Inventories, net	5	356,667	351,095
Prepayments and other assets	6	39,382	27,542
Total current assets		540,970	511,864
Non-current assets			
Investments and financial assets	7	60,010	46,866
Projects under construction	8	186,863	243,474
Property, plant and equipment, net	9	988,873	760,762
Loan to associate company	10	1,750	1,750
Total non-current assets		1,237,496	1,052,852
Total assets		1,778,466	1,564,716
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short term loans	11	100,000	195,000
Accounts payable		125,794	84,722
Notes payable due within a year		7,415	22,280
Accruals and other liability	12	65,537	57,336
Current Portion of long term loans	14	181,519	63,361
Total current liabilities		480,265	422,699
Non-current liabilities			
Notes payable		44	809
Long term loans	14	406,112	391,693
Employees' end of service benefits		33,223	25,344
Total non-current liabilities		439,379	417,846
Total liabilities		919,644	840,545
Shareholders' equity			
Share capital	1	250,000	250,000
Statutory reserve		125,000	107,877
Retained earnings		482,114	365,944
Unrealized gain from available-for-sale securities		1,708	350
Total shareholders' equity		858,822	724,171
Total liabilities and shareholders' equity		1,778,466	1,564,716

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



STATEMENT OF INCOME

For the Years Ended December 31,

	Notes	2009 <u>SR'000</u>	2008 <u>SR'000</u>
Net sales		957,725	857,106
Cost of sales		<u>(605,229)</u>	<u>(536,547)</u>
Gross Income		352,496	320,559
Selling and marketing expenses	15	(112,990)	(102,868)
General and administrative expenses	16	<u>(42,813)</u>	<u>(34,941)</u>
Income from main operation		196,693	182,750
Financing cost		(8,336)	(10,209)
Other revenues and expenses, net	17	<u>11,836</u>	<u>12,369</u>
Net income before Zakat		200,193	184,910
Zakat provision	13	<u>(3,000)</u>	<u>(7,006)</u>
Net income		<u>197,193</u>	<u>177,904</u>
Earning (loss) per share in Saudi Riyal from:			
Main Operations		<u>7.87</u>	<u>7.31</u>
Other operations		<u>0.02</u>	<u>(0.19)</u>
Net Income		<u>7.89</u>	<u>7.12</u>

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





STATEMENT OF CASH FLOWS

For the Years Ended December 31,
2009 2008

Cash flows from operating activities:

Net income before Zakat

SR'000 SR'000
200,193 184,910

Adjustments to reconcile net income before zakat to net cash provided
by operating activities:

Gain (Loss) from investments	676	(1,581)
Depreciation	85,741	76,655
Gain from sale of property, plant and equipment	(4,189)	(101)
Employees' end of service benefit provision	9,980	5,799

Changes in operating assets and liabilities

Increase in accounts receivable	(1,294)	(4,422)
Increase in inventories	(5,572)	(68,049)
Increase in prepayments and other assets	(11,840)	(5,799)
(Decrease) Increase in accounts payables	41,072	(5,916)
Decrease in notes payable	(15,630)	(8,086)
Increase in accruals and other liabilities	<u>6,787</u>	<u>1,874</u>

Cash from operations

305,924 175,284

End of service benefit paid	(2,101)	(3,332)
Zakat paid	<u>(1,006)</u>	<u>(4,193)</u>

Net cash flows provided by operating activities

302,817 167,759

Cash flows from investing activities:

Additions to investments and financial assets	-	(24,000)
Dividends received	2,538	239
Additions to property, plant, equipment and projects	(269,812)	(246,391)
Proceeds from sale of property, plant and equipment	<u>1,759</u>	<u>101</u>

Net cash used in investing activities

(265,515) (270,051)

Cash flows from financing activities:

Net (settlements) proceeds of short-term loans	23,158	(110,000)
Net proceeds of long-term loans	14,419	280,633
Dividends paid	(64,479)	(62,134)
Loan to associate company	-	(1,750)

Net cash provided by financing activities

(26,902) 106,749

Net increase in cash and cash equivalents

10,400 4,457

Cash and cash equivalents at beginning of the year

25,318 20,861

Cash and cash equivalents at the end of the year

35,718 25,318

Non-cash transactions

(Loss) gain from revaluation of securities	1,358	(2,771)
--	-------	---------

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



STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital <u>SR'000</u>	Statutory Reserve <u>SR'000</u>	Retained Earnings <u>SR'000</u>	Unrealized Gains (Loss) <u>SR'000</u>	Total <u>SR'000</u>
For the year ended December 31, 2009					
Balance January 1, 2009	250,000	107,877	365,944	350	724,171
Dividends for 2008	--	--	(62,500)	--	(62,500)
Board of directors remuneration for 2008	--	--	(1,400)	--	(1,400)
Net income for the year	--	--	197,193	--	197,193
Transfer to Statutory reserve	--	17,123	(17,123)	--	--
Unrealized gain from available for-sale securities	--	--	--	1,358	1,358
Balance at 31, December 2009	<u>250,000</u>	<u>125,000</u>	<u>482,114</u>	<u>1,708</u>	<u>858,822</u>
For the year ended December 31, 2008					
Balance 1, January 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)
Balance at 31 December 2008	<u>250,000</u>	<u>107,877</u>	<u>365,944</u>	<u>350</u>	<u>724,171</u>

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, 2009 AND 2008

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.





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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.

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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Employees' End of Service Benefits

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

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 companies' articles of association, the company has established a statutory reserve by the appropriation of 10% of annual net income. Such appropriation may be discontinued once the reserve equals 50% of the share capital. This reserve can not be distributed as dividends.

According to the company's articles of association, discontinuing the appropriation to the general reserve will be submitted to the first held general assembly meeting for approval, since the reserve has reached 50% of the share capital.

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.





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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.

	As of December 31,	
	2009	2008
	<u>SR'000</u>	<u>SR'000</u>
3. CASH AND CASH EQUIVALENT		
Cash on hand	691	546
Cash at banks	<u>35,027</u>	<u>24,772</u>
	<u>35,718</u>	<u>25,318</u>
4. ACCOUNTS RECEIVABLE, NET		
Trade accounts receivable (covered)	54,783	54,163
Trade accounts receivable (uncovered)	<u>57,020</u>	<u>56,346</u>
	111,803	110,509
Provision for doubtful accounts	<u>(2,600)</u>	<u>(2,600)</u>
	<u>109,203</u>	<u>107,909</u>
5. INVENTORIES, NET		
Finished goods	123,266	107,648
Work in process	39,397	35,361
Raw materials	91,448	105,923
Purchased goods for resale	14,050	15,230
Spare parts	75,477	69,190
Goods in transit	<u>23,123</u>	<u>22,153</u>
	366,761	355,505
Provision for slow moving and obsolete items	<u>(10,094)</u>	<u>(4,410)</u>
	<u>356,667</u>	<u>351,095</u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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 2009 is immaterial.

	As of December 31,	
	2009	2008
	<u>SR'000</u>	<u>SR'000</u>
6 - PREPAYMENTS AND OTHER ASSETS		
Prepaid expenses	16,314	6,230
Refundable deposits	9,509	7,170
Employees' advances	1,474	2,260
Advance payments to suppliers	11,490	11,086
Others	<u>595</u>	<u>796</u>
	<u>39,382</u>	<u>27,542</u>

7- INVESTMENTS AND FINANCIAL ASSETS

Investment in Associates

Natural Gas Distribution Company (7 A)	7,822	7,586
Ceramic Pipes Company (7B)	<u>36,550</u>	<u>25,000</u>
	<u>44,372</u>	<u>32,586</u>

Available for Sale Securities

Gulf Real Estate Company	4,200	4,200
Yanbu National Petrochemical (YANSAP)	2,438	1,080
Real Estate Fund (7 C)	<u>9,000</u>	<u>9,000</u>
	<u>15,638</u>	<u>14,280</u>
	<u>60,010</u>	<u>46,866</u>



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Investment in Associates

7A - The Company hold 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.

7B - The Company hold 50% of the share capital of Ceramic Pipes Company “a closed joint stock Company”. The main activity of the company is manufacturing of clay pipes. The authorized and fully subscribed share capital of Ceramic Pipes Company is SR 100 million of which SR 80 million is paid. The Company has paid its share by contributing SR 25 million in cash and SR 15 million in-kind, representing the value of a plot of land. The legal procedures to register the land in the name of Ceramic Pipes Company has completed on 3 February 2010. The investment is accounted for using the equity method.

Investment in Available for Sale Securities

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

8 - PROJECTS UNDER CONSTRUCTION

	As of December 31,	
	2009	2008
	<u>SR'000</u>	<u>SR'000</u>
Ceramic plant expansion	121,248	88,475
Sanitary ware plant expansion	47,899	47,978
Water heaters plant expansion	1,037	74,710
Others	<u>16,679</u>	<u>32,311</u>
	<u>186,863</u>	<u>243,474</u>

Net financing cost capitalized on projects under construction during the year amounted to SR 13.57 million (2008: SR 12 million).





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

9. PROPERTY, PLANT AND EQUIPMENT, NET

	Land	Buildings	Machinery, Equipment and Spare Parts	Furniture and Fixture	Vehicle & Transporta- tion Equipments	Leasehold Improve- ments	Total
	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>
Cost							
At January 1, 2009	110,191	470,511	818,237	29,843	47,084	12,375	1,488,241
Additions	1,711	64,701	249,512	2,969	5,472	2,057	326,422
Disposals	(12,570)	-	-	-	(4,919)	-	(17,489)
At December 31, 2009	99,332	535,212	1,067,749	32,812	47,637	14,432	1,797,174
Accumulated Depreciation							
At January 1, 2009	-	(270,341)	(390,522)	(23,705)	(32,203)	(10,708)	(727,479)
Charge for the year	-	(16,835)	(58,897)	(2,146)	(6,889)	(974)	(85,741)
Disposals	-	-	-	-	4,919	-	4,919
At December 31, 2009	-	(287,176)	(449,419)	(25,851)	(34,173)	(11,682)	(808,301)
Net Book Value							
December 31, 2009	99,332	248,036	618,330	6,961	13,464	2,750	988,873
December 31, 2008	110,191	200,170	427,715	6,138	14,881	1,667	760,762

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.

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, 2009 AND 2008

	As of December 31,	
	2009	2008
	<u>SR'000</u>	<u>SR'000</u>
12 - ACCRUALS AND OTHER LIABILITY		
Employees accruals	23,147	23,194
Accrued expenses	11,788	9,264
Customer advances	10,253	10,253
Dividends payable	3,686	4,263
Zakat provision (note 13)	8,144	6,150
Others	<u>8,519</u>	<u>4,212</u>
	<u>65,537</u>	<u>57,336</u>

	For the Years Ended December 31,	
	2009	2008
	<u>SR'000</u>	<u>SR'000</u>
13 - ZAKAT PROVISION		
Zakat base comprises of the following:		
Shareholders' equity	659,921	545,917
Net adjusted income	157,463	177,904
Additions	447,836	417,846
Deductions	<u>(1,257,732)</u>	<u>(895,879)</u>
	<u>7,488</u>	<u>245,788</u>





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

Changes in Zakat provision is as follows:	2009	2008
	SR'000	SR'000
Balance at the beginning of the year	6,150	3,337
Payments made during the year	(1,006)	(4,193)
Prior years Zakat adjustments	-	856
Provision for the year	<u>3,000</u>	<u>6,150</u>
	<u>8,144</u>	<u>6,150</u>

Zakat Status

The Company submitted its zakat returns and financial statements and accordingly paid the zakat due and obtained the zakat certificate up to the year 2008. The Company received the zakat assessments from the Department of Zakat and Income Tax (DZIT) for the years 2004 to 2007 and is in the process of appealing those assessments. Management believe the accrued provision is sufficient to cover the zakat liability that might result. Moreover, the Company is following up the issuance of the 2008 zakat assessment by DZIT.

	As of December 31,	
	2009	2008
14 - LONG TERM LOANS	SR'000	SR'000
Loans from Saudi Industrial Development Fund (14a)	164,347	91,941
Loans from local banks (14b)	<u>423,284</u>	<u>363,113</u>
Total loan	<u>587,631</u>	<u>455,054</u>
Less: Current Portion		
Loans from Saudi Industrial Development Fund	(24,600)	(16,300)
Loans from local banks	<u>(156,919)</u>	<u>(47,061)</u>
Total Current Portion	<u>(181,519)</u>	<u>(63,361)</u>
Total non-current Portion	<u>406,112</u>	<u>391,693</u>





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

14a) Saudi Industrial Development Fund (SIDF) Loans

The Company obtained loans from SIDF to finance its ceramic and porcelain tiles, sanitary ware and electrical water heaters 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, 2009 amount to SR 59 million (2008: SR 77.16 million). The due date for utilizing the remaining amounts of the facility is 29/06/1431H corresponding to 12/06/2010G.

The movement in SIDF loans during the years ended December 31, 2009 and 2008 were as follows:

	2009	2008
	<u>SR'000</u>	<u>SR'000</u>
Balance at the beginning of the year	91,941	94,421
Loans received during the year	88,706	11,720
Settlements made during the year	<u>(16,300)</u>	<u>(14,200)</u>
Balance at the end of the year	<u>164,347</u>	<u>91,941</u>





NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

14b) Local Bank Loans

The Company obtained mid-term Islamic Murabaha loan facilities from local commercial banks for a total amount of SR 490 million for the purpose of financing the expansion of its plants. The bank facilities are guaranteed by promissory notes in favour of the banks. The loans charges are determined based on the Murabaha agreement and the loans repayments will be made on unequal semi annual instalments starting 18/09/2008G and will end on 28/01/2014G.

	For the Years Ended December 31,	
	2009	2008
	SR'000	SR'000
15 - SELLING AND MARKETING EXPENSES		
Salaries, wages and related costs	45,435	39,558
Freight and transportation charges	38,400	33,641
Advertisements	6,870	7,542
Depreciation	7,780	7,466
Administrative and office expenses	5,056	4,934
Rent	5,293	4,796
Energy	1,157	896
Repair and maintenance	2,078	1,721
Others	921	2,314
	<u>112,990</u>	<u>102,868</u>
16 - GENERAL AND ADMINISTRATIVE EXPENSES		
Salaries, wages and related costs	28,779	23,509
Depreciation	2,082	1,897
Administrative and office expenses	3,733	3,831
Provisions	7,200	4,800
Repair and maintenance	945	833
Energy	74	71
	<u>42,813</u>	<u>34,941</u>

The expenses and meetings' attendance allowances for the board of directors and other committees of the board amounted to SR 275000 during the year (2008: SR 293000).



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	For the Years Ended December 31,	
	2009	2008
17 - OTHER REVENUES AND EXPENSES, NET	SR'000	SR'000
Gain (Loss) from investments	(676)	1,581
Gain from property sales	4,189	101
Revenues from materials sales	3,672	6,075
Others, net	<u>4,651</u>	<u>4,612</u>
	<u>11,836</u>	<u>12,369</u>

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 sell its products to Yara Trading Co. a Company owned by a board member. Transactions with related parties are executed with terms similar to those who are not related. The details of transactions and balances of related parties during 2009 were as follows:

	Transaction	Balance 1/1/2009	Transaction Value	Payments and Receipts	Balance 31/12/2009
	Type	SR'000	SR'000	SR'000	SR'000
Natural Gas Company	Purchases	1,613	18,681	(18,582)	1,712
Yara Trading Company	Sales	2,345	23,773	(23,178)	2,940

19 - CONTINGENT LIABILITIES AND COMMITMENTS

The Company has obtained bank facilities in the form of letters of guarantee and letters of credit from local banks amounting to SR 206 million as of 31 December 2009 (2008: to SR 213 million). The letters of credit include an amount of SR 155 million (2008: SR 108 million) relating to capital commitments for the supply of machinery and equipment for the plants expansion projects.

The Company guarantee a portion of the SIDF loan to one of its associate companies equivalent to its portion in the share capital of that company for the amount of SR 1.87 million (2008: 1.87 million). Additionally, the Company guarantee a portion of the SIDF loan to another associated company equivalent to its portion in the share capital of that other company for the amount of SR 51.2 million (2008: 51.2 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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

SEGMENT INFORMATION - Continued

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

	Ceramic Tiles And Sanitary Ware	Water Heaters	Total
	<u>SR'000</u>	<u>SR'000</u>	<u>SR'000</u>
For the year ended December 31, 2009:			
Total assets	1,467,982	310,484	1,778,466
Total liabilities	836,629	83,015	919,644
Sales	734,194	223,531	957,725
Gross income	300,566	51,930	352,496
Net income	172,628	24,565	197,193
For the year ended December 31, 2008:			
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

21 - DERIVATIVES

The company signed a hedge agreement with a local commercial bank to hedge its risk against changes in the Murabaha loan rate for an amount of SR 50 million. The agreement with the bank is based on a variable to a fixed rate swap.

22 - APPROVAL OF FINANCIAL STATEMENTS

The board of directors approved these financial statements in their meeting held on 24/2/1431H corresponding to 08/02/2010G.

23 - PROPOSED DIVIDENDS

The board of directors, in their meeting held on 28/12/ 2009G, proposed cash dividends to the shareholders for the year 2009 amounting to SR 75 million, which is SR 3 for each share, representing 30% of the company's capital (2008: SR 62.5 million which is SR 2.5 for each share).

